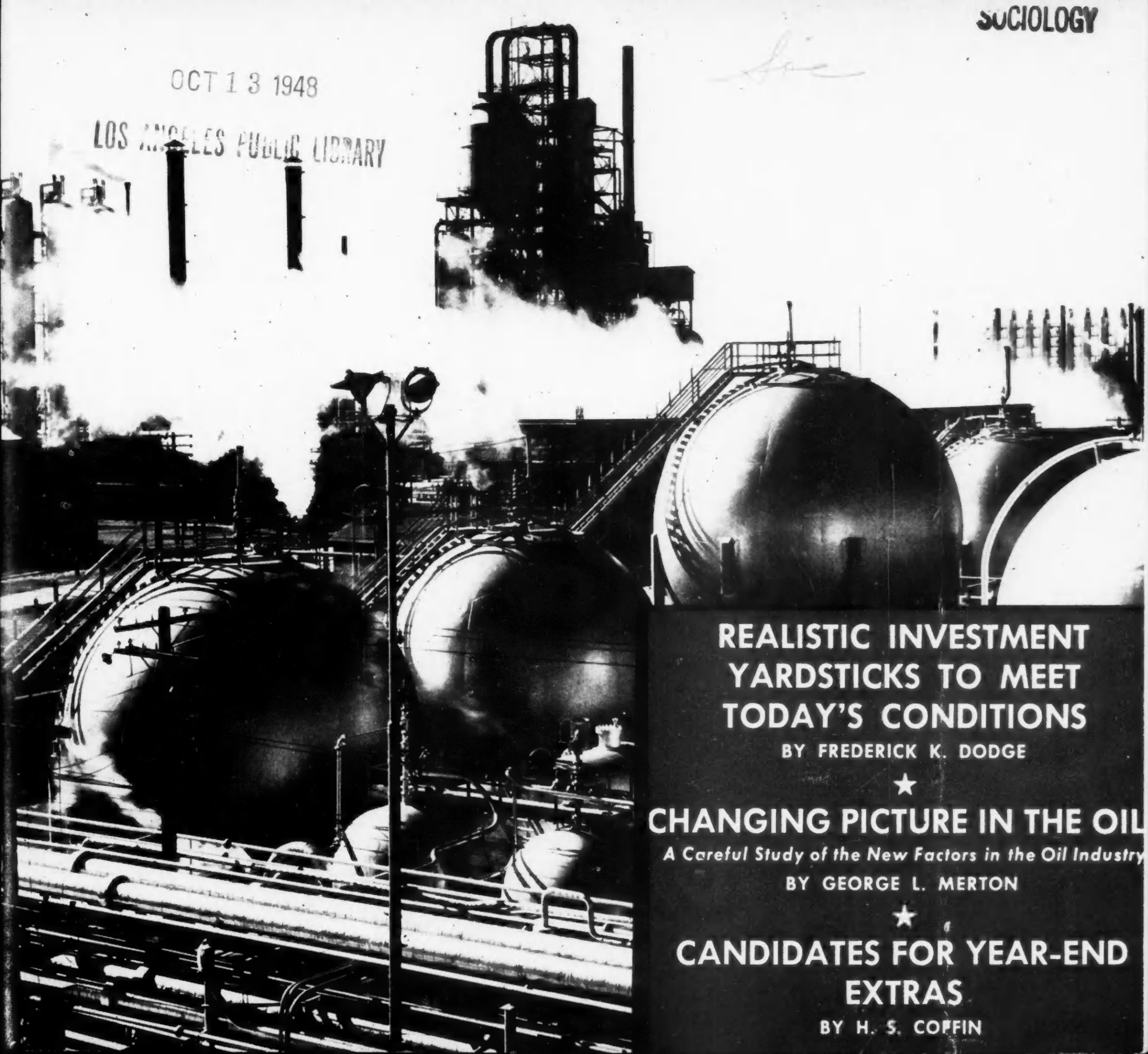
★ MARKET RE-APPRAISING OUTLOOK ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

OCTOBER 9, 1948

50 CENTS



REALISTIC INVESTMENT YARDSTICKS TO MEET TODAY'S CONDITIONS
BY FREDERICK K. DODGE

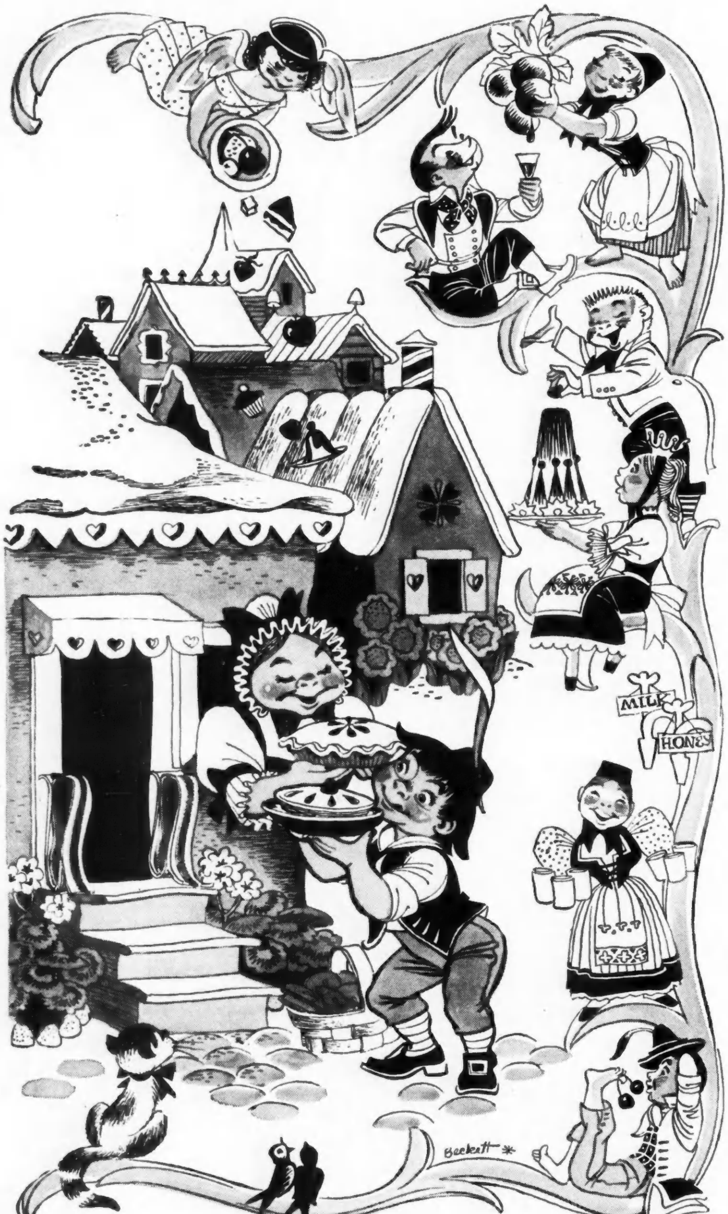
★

CHANGING PICTURE IN THE OIL
A Careful Study of the New Factors in the Oil Industry
BY GEORGE L. MERTON

★

CANDIDATES FOR YEAR-END EXTRAS
BY H. S. COFFIN

Money is <u>un</u>important here!!



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It's a wonderful place where the houses are built of cake, and the shops are eager to give you their merchandise for free.

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THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 83, No. 1 October 9, 1948

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CONTENTS

Trend of Events 3

As I See It
By Robert Guise 5

Market Re-Appraising Outlook
By A. T. Miller 6

Where Growth—Where Maturity is Indicated
By Ward Gates 8

Realistic Investment Yardsticks to Meet Today's Conditions
By Frederick K. Dodge 11

Where Steel Shortage Will Hit Most
By Henry L. Blackburn 14

Happening in Washington
By E. K. T. 16

As We Go to Press 17

Lessons in Failure of Socialism in Britain
By V. L. Horoth 19

Increasing Corporate Indebtedness—What Significance to Investors—By J. S. Williams 22

Changing Picture in the Oils
By George L. Merton 25

The Chemical Industry
By J. C. Clifford 28

Candidates for Year-End Extras
By H. S .Coffin 32

For Profit & Income 34

Answers to Inquiries 36

Keeping Abreast 37

The Business Analyst
By E. K. A. 38

Cover Photo by Standard Oil (N. J.)

SUBSCRIPTION PRICE—$12.50 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg. London, E. C. 4 England.

Cable Address—Tickerpub

NEW PROBLEMS IN THE OIL INDUSTRY

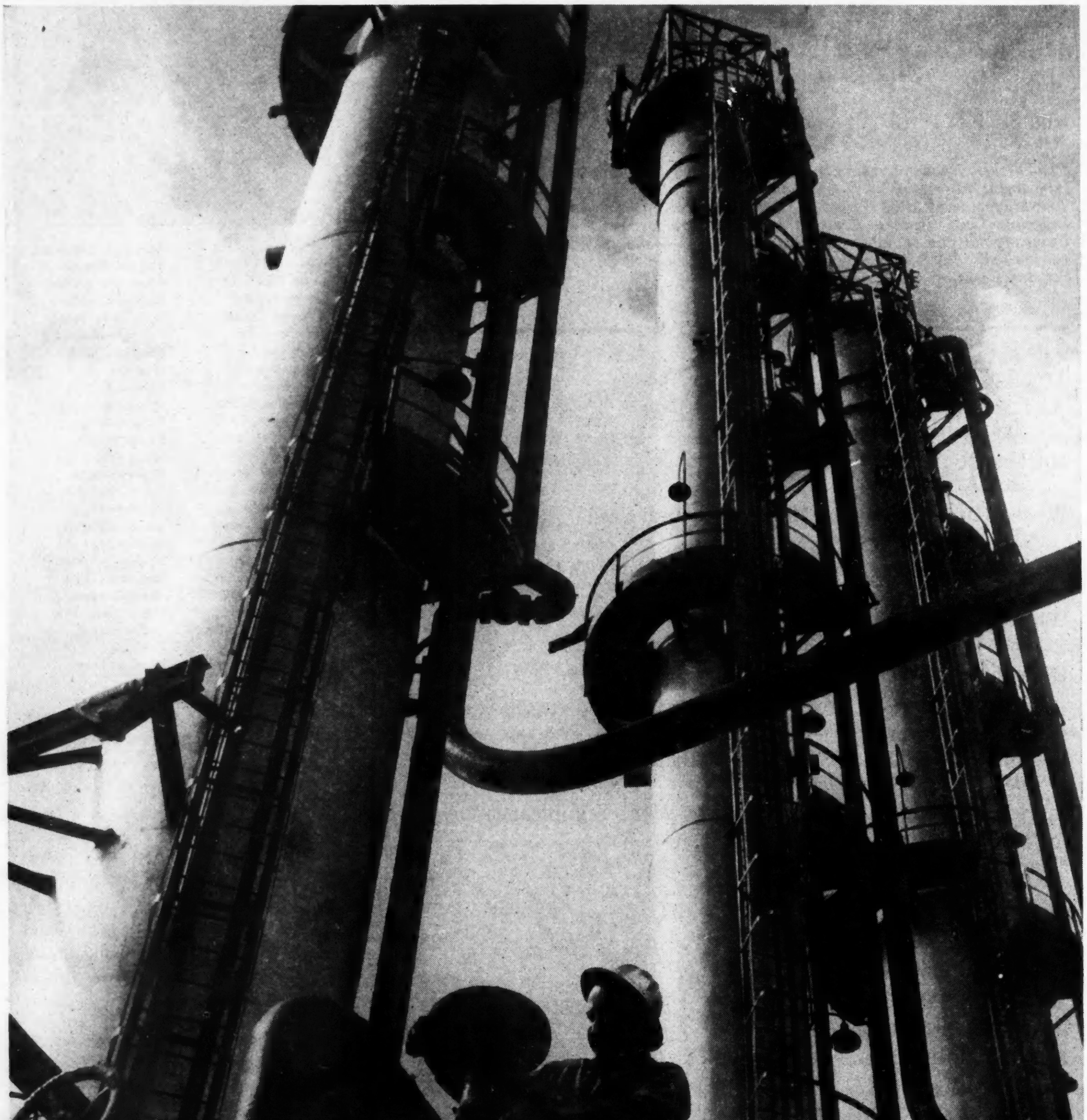
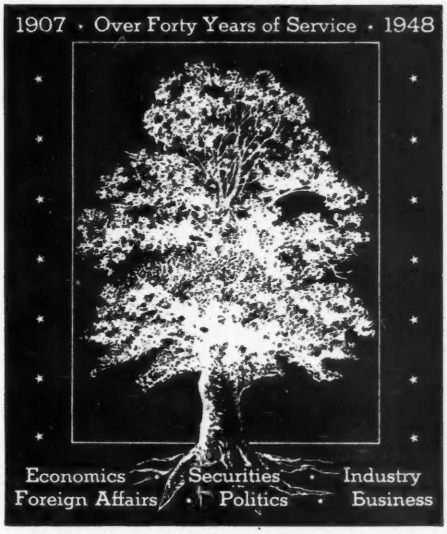


Photo by Texas Co.

The enormous size and economic importance of the oil industry is the result of the development of petroleum as an indispensable element in modern industrial society. Hence the ceaseless search for oil, the tremendous expansion of the industry's far-flung facilities. With the first postwar test successfully met, new problems and factors have risen with an important bearing on the industry's future. For an overall picture of what's ahead, read the article on page 25, discussing the "Changing Picture in Oils."

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

"GLUTTONS OF PRIVILEGE" . . . Demagoguery in the past has frequently been part and parcel of political campaigns but seldom has it been so one-sided, so brash and irrelevant, and so unconvincing as in candidate Truman's campaign oratory. His recent speech at Dexter, Iowa, is a case in point. In it he accused "big money Republicans" and "Wall Street gluttons of privilege" with a conspiracy to take over the country lock, stock and barrel, and return it to a Wall Street economic dictatorship that would mean virtual slavery for both labor and the farmers.

Lashing out in this manner may impress and inflame the uninformed and the radical fringe; it is also indicative of the low level at which the democratic campaign is being conducted. Between the calm and objective discussion of American problems and principles of Government by the Dewey-Warren team and the clamor and abuse of the Truman speeches, the contrast is enlightening. While campaign speeches seldom seem to have much effect on electoral results, they have often—through the kind of issues debated and the manner in which the candidates debated them—had a considerable influence over the subsequent exploitation of an electoral victory. This is food for thought for the voters!

On his tour through the West, candidate Truman has dragged out every antiquitated weapon that many decades ago have served the cause of demagogy. Wall Street and Big Business were different in those days; today they will hardly frighten anyone who can read a corporate report or understands a report of the New Deal-created SEC. Mr. Truman failed to explain how SEC-regulated Wall Street could ever attempt to "take over the country" and get away with it. He ignored the fact that in his very own Administration there are many efficient men from Wall Street holding high positions of trust and importance. He was equally insensible to Wall Street's role in building and developing this country's industry and economy, and the role this private enterprise economy has played in raising our standard of living to levels that have become the envy of the world. And in speaking to a rural audience, he was quite forgetful of the fact that many in Wall Street hail directly from "Main Street" and the grassroots.

Apparently candidate Truman's avowed idea of "giving them hell" is to set class against class, to make it appear to workers that all employers are scoundrels, to fool farmers into forgetting that the Republican Adminstrations of Coolidge and Hoover planted the seeds from which the present system of farm price supports has grown. By contrast, where Mr. Truman pits one section of the people against another, Governor Dewey pleads for unity.

Mr. Truman's devotion to "labor," the "farmer" and the "small businessman," and his antiquely flavored assault on "privilege" and "Wall Street" is not convincing and will fool no one. The foundations for a great battle against "privilege" hardly exist today. Far more crucial problems confront the nation, burning issues of life and death import such as foreign policy and the reestablishment of a sound national economy, issues that require unity rather than cleavage, issues moreover on which there can be no fundamental difference between parties and no great divisions of principle if the country's welfare and future is the foremost aim.

THE WORLD BANK MEETING . . . Against a background of rising inflation and growing foreign exchange difficulties which are acting as a distinct barrier to world recovery efforts, the finance ministers and central bankers of forty-seven nations are presently meeting in Washington to discuss mutual problems and hear

proposals for their solution. The latter for the most part will come from the International Bank and the International Monetary Fund, now holding their third annual meeting.

It is widely expected that most if not all the visiting foreign representatives will seek some concession or other from this country. Britain is plugging for lower interest rates on ECA loans and has in fact already succeeded in inducing ECA to agree to a rate cut from 3½% to 2½% on long term loans. Latin American countries are reported to seek a more liberal loan policy through the Export-Import Bank and may be expected to act en bloc to that end. And most western European countries seek a liberal interpretation of the purposes for which so-called "counterpart" funds of the ECA may be used. Even various Russian satellites will have their special cases to plead; in fact one of them—Czechoslovakia—already obtained a loan.

Thus it seems that as usual, this country will be mainly at the "giving end," all in the interest of world recovery and particularly European recovery which so far has been none too impressive. Undoubtedly ECA problems will dominate the discussions and it would surprise no one if they would produce, on our part, some very plain speaking to member countries which are lagging in progress towards financial stability. The European recovery problem has been aggravated by continued deficit financing and the inflationary impacts of price and wage controls, and rationing systems. ECA criticism of such practices will likely be outspoken.

There is little doubt, however, that most of the concessions sought by the foreign visitors will be granted, except one. Efforts to induce us to raise our gold price will fall flat—in fact have already fallen flat. In the past months there has been growing pressure, particularly on the part of Britain and Canada, for us to increase our gold price from $35 an ounce to $50, and determined efforts were to be made at the current meetings to convince us of the need for such action. To clear the air, Treasury Secretary Snyder, before the conferences opened, stated emphatically that this country will not under any circumstances increase the price it pays for gold. It must be assumed that this statement will stand, in the face of whatever pressure or arguments the proponents of a higher gold price will bring forth.

As pointed out by this publication on previous occasions, raising our gold price now is distinctly not in our interest. The main beneficiaries would be the gold producing countries which would stand to reap enormous profits not only on future production but on the sizable amounts of gold already above ground, much of it held in this country. As far as we are concerned, it would be merely another "hand-out" on our part, and one with highly inflationary connotations and other repercussions definitely not to our advantage. Mr. Snyder was well advised to spike these efforts at the beginning. While, nevertheless, the gold price will doubtless be discussed, his stand has made it clear that such discussions, at this time at least, can be no more than academic.

TAXES AND THE SUPPLY OF RISK CAPITAL . . . Prior to the war, either inadequate corporate earnings or lack of confidence militated against availability of sufficient risk capital to meet the needs of our normal industrial development. During the war, private industry was not free to expand except for military purposes. Thus at the end of the war, accumulated capital needs were enormous, yet it was a foregone conclusion that in view of prevailing high income taxes, only a relatively small part of the public's income would find its way into capital investments.

Hence the widespread resort to debt financing, and particularly to internal financing; the bulk of new capital has lately come from the plowing back of business earnings as the supply of genuine venture capital had well nigh dried up. Nor will there be much change in the situation until income taxes are substantially reduced, permitting the accumulation of savings to be converted into risk capital.

Unfortunately, lower income taxes—despite campaign promises—seem an awful long way off; as it looks now, we shall be lucky if we can get by without higher income taxes. But there is one way—relatively inexpensive to the Treasury—that would help; one important channel by which capital may be released for new enterprise: By removing the capital gains tax! For many years, this tax has been justly criticized as a serious deterrent to the creation and investment of venture capital. It has consistently retarded enterprise and blocked the sale of capital assets. Together with high income taxes, it has been a main factor in bringing about the current shortage of risk funds. The scarcity of venture capital is recognized and studies are being made with a view to creating or finding new sources of risk capital but there is, really, little need for such studies. The cause of it is too well known; the remedy too obvious.

In view of the relatively meager revenue which the capital gains tax has brought over the longer term, the tenacity with which it has been retained in our tax system is difficult to understand. In latter years it certainly has done more harm than good, if good it ever did—from a revenue standpoint or otherwise. Repeal of the capital gains tax would be eminently desirable in that it would remove a serious obstacle to the free movement of capital investments, and help convert blocked capital into new venture capital so badly needed for sound economic development. No outmoded tax should be allowed to dam the flow of capital into enterprise.

TRUST BUSTING . . . The sudden flare-up of anti-trust activity, in what appears to be the dying days of the Democratic Administration, has observers just a bit puzzled. New cases are being piled up in great haste, it seems, but the objective is fairly clear: To pass on an active anti-trust program to the succeeding Administration.

Dramatic new cases may be expected, some of them —such as the meat packers' case—probably making excellent campaign material because of the cost-of-living factor tied in with it. So far sixteen cases of this type, covering a wide range from meat to clothing and building materials, have been produced. More will follow, we understand.

Perhaps of even greater interest, from a long range business viewpoint, is the latest attack on such industrial giants as du Pont, General Motors and related companies, not to mention Aluminum Corporation of America which is once more (*Please turn to page* 48)

As I See It!

BY ROBERT GUISE

THE PRICE OF WEAKNESS

Russia's conduct in Berlin has finally been placed before the United Nations Security Council with the western powers united in spirit as well as in action. Were there any lingering doubt about the convictions they share and for the sake of which they are ready to assume grave risks, it would be dispelled not only by the addresses of Secretary Marshall and French foreign minister Schuman — though both were relatively mild — but perhaps even more so by the forthright speech of Belgium's prime minister Spaak.

The latter, the most outspoken on the East-West struggle ever made by any western statesman, did not mince words. Doubtless it was the kind of language that not only the United Nations Assembly but the world at large has long wanted to hear. Both Mr. Spaak's refutation of Vishinsky's charges — and his own counter-charges, placed the critical world situation in exactly the proper light. When Mr. Spaak exclaimed that the basis of western policy is fear — fear of Soviet aggression and Soviet imperialism, he put the spotlight on the real motive behind every western action since the beginning of our quarrel with the Soviet Union.

The fact remains, of course, that the Berlin crisis was born at Potsdam where this country was represented by President Truman and where Secretary Marshall also was present. Historical mistakes of this sort can never be corrected. Rather, they create new situations that must be coped with, and this we have been trying to do, though hardly efficiently. Instead of a policy of competence, decision and courage, there was appeasement and vacillation. In retrospect, one cannot help thinking that if the Berlin blockade from the start had been countered with a more determined policy, results might have been different. Secretary Marshall has just stated that we shall not compromise with our rights and principles. Had we taken that stand right at the beginning, had we refused to back down before the various Soviet moves that finally brought about the present situation, the crisis in its present form might never have arisen.

"GOING INTO HIS ACT"

Seibel in The Richmond Times-Dispatch

True, this would have been a calculated gamble, but the end results could hardly have been worse than what we are facing now. More likely the Russians would have backed down. Just as now, if it is made sufficiently clear that any interference with the air lift will be met with force, there will likely be no interference — or if there is, no war will result from its armed suppression.

Appeasement now is over, that much is obvious, but it should never have begun or been carried to the lengths we did. A firm stand, we think, would have involved smaller risks than those of fear and feebleness. Not only are the risks today greater, but we have lost a good deal of prestige in the eyes of the world, and in the eyes of the Soviets who are well-known for their contempt for weakness. What happened was that in our fencing with the Kremlin over the blockade, we have progressively lost out, providing the Soviets with a series of piecemeal victories and bringing the western world to the brink of war.

The appeal to the United Nations means merely another battle in the cold war with Russia; it can solve nothing. It provides a means of bringing Russia before the bar of world opinion, but unless we watch out it will end up in another Soviet victory, at least in the propaganda field. Since the United Nations themselves lack the power to enforce either a just settlement or peace, the cold war will go on, in one form or another, until one side breaks. Our task is to make sure that it isn't our side.

Russia has the power to veto any sanction against herself; hence such measures are out of the question. She can prevent any kind of decision by the Security Council and may even prevent any discussion of the charges brought aaginst her. The best we can expect from the appeal to the United Nations is establishment beyond challenge who the aggressor is. This is probably the only and real significance of the latest move. It lifts the conflict beyond the realm of a dispute between the western powers and Russia and makes it a world issue formally and officially. Whether, except (*Please turn to page* 48)

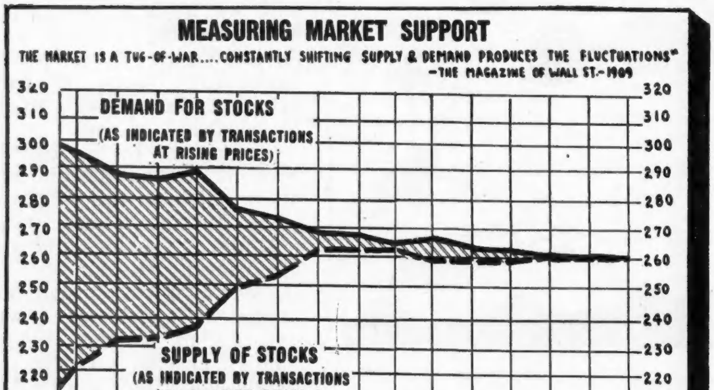
Market Re-Appraising Outlook

Although downward, recent changes in the market have been moderate. Barring war, which we regard as unlikely, we expect nothing better or worse than trading-range fluctuation for the near future. The immediate technical position is improved. The underlying uncertainties are unresolved. Our investment policy remains cautious and selective.

By A. T. MILLER

At the lowest level reached last week the Dow-Jones industrial average had declined roughly 17 points from the June recovery top of 193.16 to approximately the 176 level, which was less than 11 points above the year's low to date. The latter, seen last March, was 165.39. Although this irregular downtrend has been spread over a period of about three and a half months, roughly two-thirds of the total damage done to stock prices so far could be accounted for by three one-day war-scare selling flurries on July 19, September 20 and September 27. Each was a Monday, which probably is partly a matter of pure chance, partly a tendency for selling orders to accumulate over the week-end as investors contemplate the unsatisfactory state of affairs in Europe.

The market has retreated in a manner now familiar: a few steps down, a partial recovery, some do-little-or-nothing days, another step down—taking a fairly long time to cancel something over half of the spring-summer rise. Unless there is war, or a really acute mounting of war fears, there is little reason to think that the pattern will change. Certainly it ran true to form over this last fortnight. In the initial trading session of each of these two weeks there was a sizable break, followed immediately by quiet and modest rallies rather than any "follow-through" liquidation. As a result, the market at the end of last week was only slightly lower than it had been a fortnight ago; and, for that matter, at a level only a little lower than it had touched as far back as July 19.



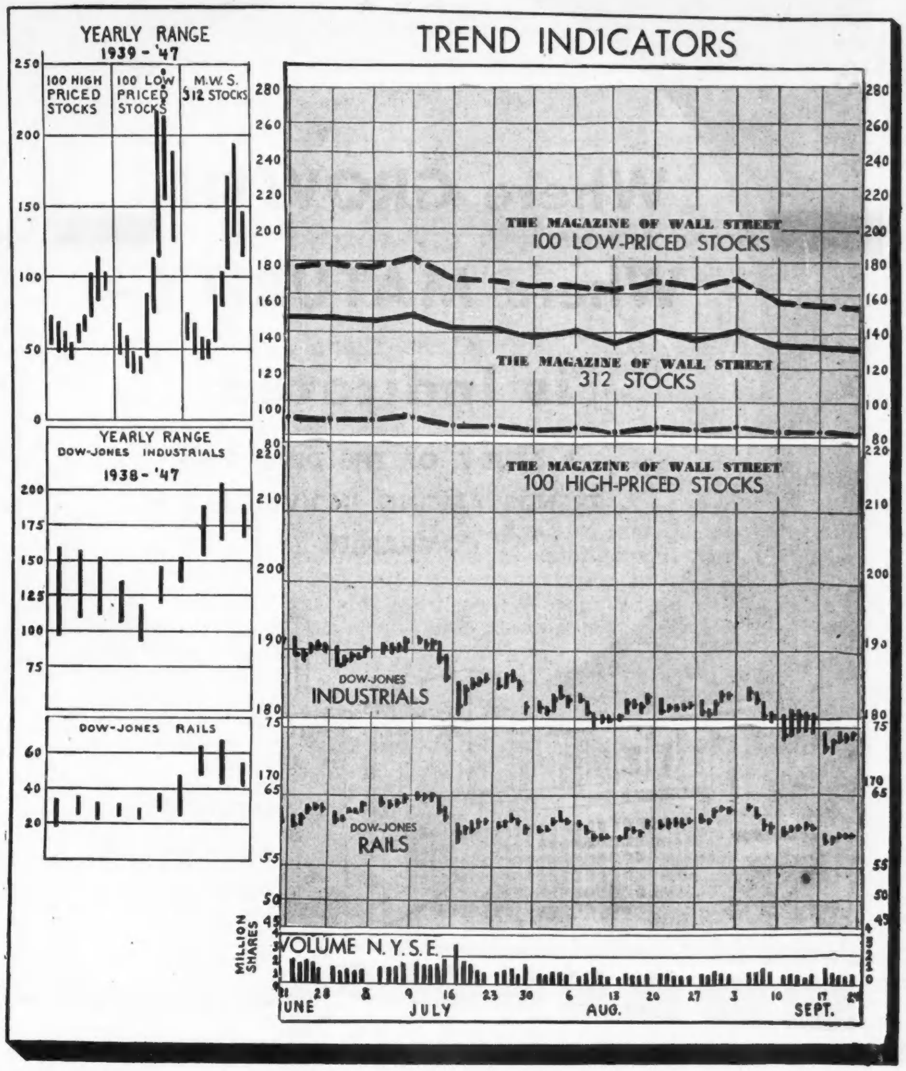
The Reasons for Slow Movement

The reason why the net decline has been slow and "grudging"—although the total scope is of some importance—are simple. There is only an insignificant amount of stock held on margin, and on that the minimum margin is 75%. Hence, forced liquidation is out of the picture. Second, business activity, earnings and dividends remain around peak levels. As things look now, the chances are that there will be some recession in business in 1949, but this has been expected so long and predicted so often that many, if not most, investors are reluctant to sell stocks in the absence of actual, visible and unmistakable evidence that things have begun to slide. Third, on the evidence of the past two months, it seems possible that war fears have lost at least some potency as a market depressant for the time being. Perhaps it is something like the cry of "Wolf!" being raised too often, with nothing happening beyond more short-of-war maneuvers.

Of course, the latter analogy is inexact, and we would not press it. There is nothing imaginary about the Communist "wolf," and you must not under-rate Moscow's ability to think up new ways of twisting our tail in Berlin, perhaps enough so to shake the public's nerves some more. In short, it cannot be safely concluded that we have seen the last dose of market jit-

ters over foreign developments. But if the news is not more disturbing than it has been for some weeks, we would expect any further decline in stock prices over the medium term to be slow, orderly and moderate.

Indeed, it is quite possible — again, if the news permits—for the market to stage a rally, of more than a few days duration, from last week's lows merely as a normal revulsion from a temporary excess of gloom. The immediate basis for it is mainly technical, and too subject to upset to justify any investment buying. On the contrary, rallies of some proportions should be utilized for further sales by investors who have not heretofore built up adequately conservative cash reserves. We are not inclined to press such selling at the moment, with the industrial average around 179.



Many readers ask us if we think there is a real threat of war within a matter of months. All we can say is that war seems improbable. We do not believe that the Russian dictatorship plans it, wants it or is ready for it. Yet it cannot be ruled out as a possibility. The possibility is not some "accident." It is that Moscow might miscalculate how much our side would take in some planned short-of-war devilment and thus work into a position from which retreat would not be possible without hopeless loss of face in Europe. Then the jig could be up. Thus, even if you say that the odds may be four to one against a war, you are still dealing with something that is considerably short of certainty.

Since Russia is playing a power game and respects only power, it seems obvious that if we hope ever to get a solution in Europe there are only two alternatives. One is war. The other is a sufficient increase in our armed might—and that of Western Europe through military lend-lease or some equivalent thereof—so that our diplomacy can have effective weight. Under that condition—if the diplomacy is both more wise and resolute than it has been heretofore—a peaceful solution might be possible. But the armed power comes first. In this view, Gov. Dewey's promises to cut spending and revise taxes strike us as not more than desirable objectives for some time which, if not very distant, certainly seems out of sight now.

Despite the apparent odds, what if war should come? There is no point in conjecture over the details. There would be complete and fast regimentation of the economy and the people. Corporate and personal taxes would be sharply raised. The stock market would fall greatly. Stocks would become bargain-buys in due time. At what level of the averages that might be is quite impossible to foresee.

An Armament Economy?

The effect of increased arms outlays, without war, is much harder to figure. In fact, it is highly uncertain, because everything depends on *how much* the increase is, how it relates to private spending and how it is financed. The present defense budget is about $13 billion a year, much more for maintenance than for new weapons. The projected one for the 1949-1950 fiscal year is reported to be around $15 billion, but is tentative since the Dewey Administration will probably write the ticket. A $2 billion increase, or even somewhat more, could be offset by that much decline in private outlays for plant and equipment, inventories, etc.

There is also the question of the time table. Unles Washington gets more excited about the possibility of war than it now is, armament tends to get going somewhat slowly and ponderously. Money voted takes months to get trans- (*Please turn to page* 49)

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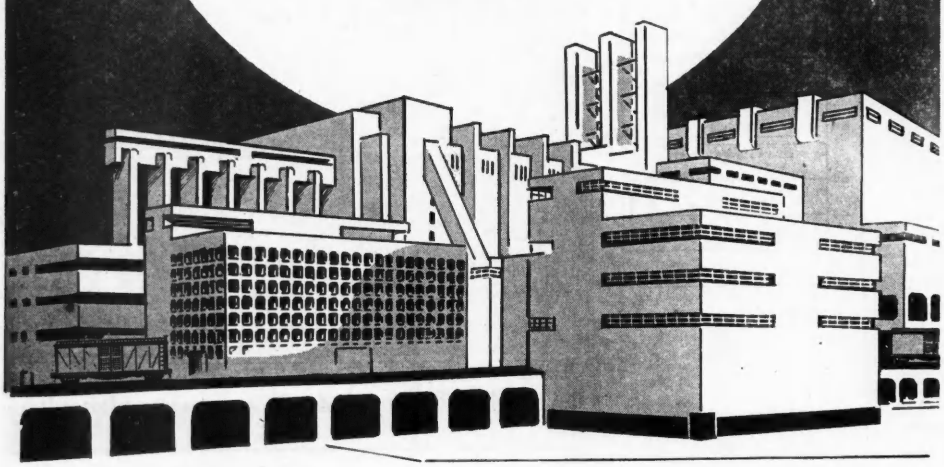
Where GROWTH— Where MATURITY— is Indicated

— A STUDY OF THE DIVERGENT TRENDS AMONG INDIVIDUAL COMPANIES



By WARD GATES

In view of the record expansion in economic activity during the past decade, sparked by war and fanned by a subsequent rush for peacetime goods, practically every form of American enterprise has enjoyed vigorous and profitable growth. Over-all industrial volume and earnings in 1948 seem certain to reach new heights. But evidence is clearly accumulating that some sectors of the economy and their individual components must expect their upward growth curve to level off at least, though others may find outlets for steadily increasing capacity. To weigh these divergent potentials should be of prime importance to astute investors.

The farflung operations of our giant corporations, extending throughout the United States and all over the world, have naturally stimulated their growth and entrenched them firmly in competitive markets. For this reason it might be assumed, too readily perhaps, that they have forged ahead faster and more profitably during the last ten years than relatively smaller enterprises, and are likely to continue so. A long list of anti-trust suits started by Attorney General Clark shows that Washington has adopted this view, thus tending to confirm the opinion of some investors that the yardstick of corporate size should be a prime consideration in appraising growth potentials.

A Composite Picture

The Department of Commerce, on the other hand, has studied this subject extensively, assembling some statistics that refute these notions in a most interesting way. Taking the 11 year period of 1936 through 1946 as a base, and the experience of 1000 large manufacturing concerns for evidence, the Department's Office of Business Economics made a year by year analysis to reveal the progress of these important enterprises. Since at the end of 1946, these corporations held over half of all manufacturing assets and produced about half of total sales in their division, the significance of the data is apparent. Pertinent to our discussion, the statistics were broken down to show results for the 200 largest corporations and 800 smaller ones separately, with emphasis upon gross assets, sales and both pre-tax and final net earnings.

In brief, the relative status of these two groups varied little between 1936 and 1939, but divergent trends were shown for the entire 1936-46 period. Total assets of the 200 biggest corporations rose by 41%, their volume by 100% and their net earnings after taxes by 61%. In contrast, the aggregate assets of the 800 smaller concerns increased by 96%, their sales by 148% and their net profits by 150%. These figures show very conclusively that the progress of our giant enterprises during a prolonged period of activity, marked though it has been by the war (or perhaps because of it), was less dynamic than that of somewhat smaller concerns.

Despite the interesting implications of these statistics, however, it should be realized that boom times invariably open the door of opportunity *rela-*

Assets, Sales and Net Profits of Ten Largest Corporations

	Total Assets			Net Sales ($ Million)			Net Profit		
	1939	1947	% Increase	1939	1947	% Increase	1939	1947	% Increase
American Tobacco	$291.2	$646.7	122%	$262.4	$819.6	213%	$26.4	$33.8	28%
Bethlehem Steel	732.9	948.7	29	414.1	1,032.3	148	24.6	51.1	108
Du Pont	857.6	1,438.1	68	298.8	795.5	166	93.2	120.0	29
General Electric	392.2	981.5	150	304.7	1,186.3	288	41.2	88.3	115
General Motors	1,323.4	2,472.9	87	1,376.8	3,815.2	177	183.4	288.0	58
Goodyear Tire & Rubber	191.5	407.8	112	200.1	670.7	235	11.6	25.5	120
Standard Oil of N. J.	2,034.9	2,995.9	48	933.7(a)	2,354.9(a)	152	89.1	268.6	201
Union Carbide	336.8	649.1	93	187.5	521.8	178	35.8	75.6	111
U. S. Steel	1,768.5	2,162.6	22	904.1	2,122.8	134	41.1	127.1	210
Westinghouse Electric	217.1	601.6	177	175.1	703.1	302	13.8	48.8	254

(a)—Gross Operating Income.

tively wider to smaller firms than to some of the largest units. When all classes of goods are scant in relation to supply, almost any producer can dispose of output rapidly and frequently outdistance rising costs by lifting prices. As to relatively small and compact organizations, the factor of low overhead tends to swell profits, often inordinately. In such periods the glamour of abnormal prosperity stimulates the urge to expand capacity or to diversify production, one as a mark of confidence and the other as a cushion against leaner times. Asset growth results from either policies, though a continued uptrend in volume and profits may not necessarily follow.

In studying the growth of the largest corporations in recent years and their probable progress on the road ahead, some reservations are needed in appraising the statistics cited. The figures employed include consolidated balance sheets and earnings, sometimes embracing the operations of as many as 50 subsidiaries that themselves must be classed as smaller concerns. Then, at the end of the war, accelerated amortization of wartime facilities, purchase of plants owned by the Government, inventory adjustments up or down, and expansion programs caused heavier distortion of asset figures for concerns of the largest size. All said, though, their relatively smaller sales and earnings gains permit no alibis.

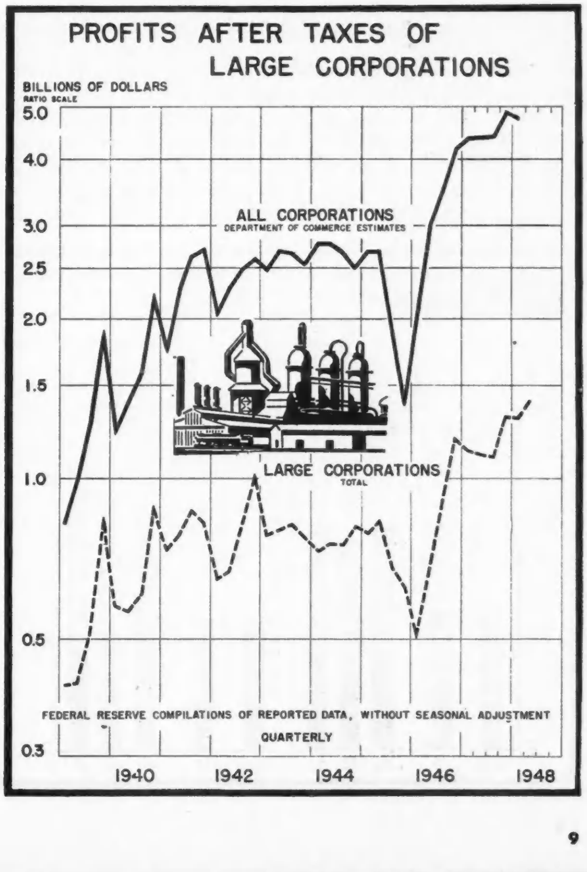
Position of the Big Companies

Where the big companies ultimately may benefit by conservative policies in recent years, if that is a proper term for restraint or inability to grab all the business in sight, is through basic advantages in market entrenchment, highly modernized equipment, financial resources and the sheer weight of big size. When widespread competitive conditions return to the economy, "reciprocal business" of the large companies will tend to stabilize their sales. The railroads, for example, will concentrate purchases of supplies more closely with concerns in a position to swell their freight revenues, and chemical concerns repairing their plants will tend to buy paints from customers that order their resins, oils and pigments. This kind of competition, though logical, is hard for the smaller concerns to meet, often offsetting price considerations. Additionally the same thing is true in considering brand popularity or corporation reputation.

All said, many large enterprises, while achieving record sales and earnings along with substantial expansion, may appear less dynamic in their growth than others of more moderate size. History shows, however, that in less active periods their growth rate increases faster than that of smaller units, their sales exhibit greater stability and their profits are more uniformly satisfactory. In general, therefore, investors with an eye on long term dividend potentials should give reasonable weight to this factor.

How They Compare

The accompanying tabulations list ten of the nation's largest corporations, and twenty others of substantial size though relatively smaller. The growth in total assets, sales and net profits of all these outstanding concerns from 1939 through 1947,



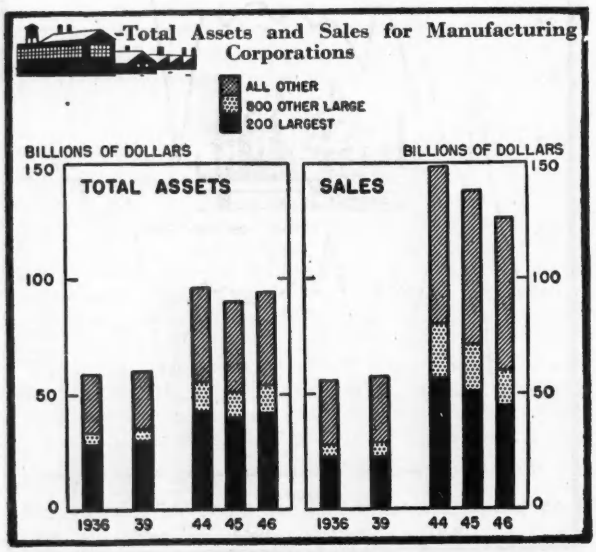
Assets, Sales and Net Profits of Twenty Smaller Corporations

	Total Assets			Net Sales $ Million			Net Profit		
	1939	1947	% Increase	1939	1947	% Increase	1939	1947	% Increase
Abbott Laboratories	$16.1	$58.2	260%	$11.5	$59.6	420%	$2.0	$10.2	410%
American Brake Shoe	32.8	67.7	106	24.6	107.6	335	2.1	4.5	115
Borg-Warner	49.5	151.4	205	64.1	258.4	303	5.7	24.5	330
Byron Jackson	4.0	12.3	207	3.5	14.3	310	.5	1.3	160
Caterpillar Tractor	53.5	122.4	129	58.4	189.1	224	6.0	9.9	65
Celanese Corp.	66.3	212.0	218	41.4	181.1	337	6.6	24.2	265
Celotex	12.3	36.1	193	12.3	46.8	280	.7	6.2	785
Fairbanks Morse	31.8	74.3	134	24.5	89.5	265	2.5	4.2	68
Heyden Chemical	5.6	27.8	406	5.2	21.9	322	.8	2.7	237
Houdaille Hershey	13.7	32.6	138	17.7	56.8	220	1.5	4.0	167
Hinde & Dauch	12.6	18.6	48	13.8	35.0	157	.8	2.4	200
Johns-Manville	53.7	115.3	115	53.8	133.9	148	4.3	9.5	120
Minneapolis-Honeywell	12.2	41.3	237	14.0	60.6	332	2.1	6.7	220
Monsanto Chemical	54.7	198.7	263	42.9	143.4	233	5.4	15.5	187
National Cash Register	47.6	109.5	130	40.4	144.6	257	1.8	11.3	528
Reynolds Metals	23.6	111.9	372	20.5	129.2	530	1.5	3.3	120
Shamrock Oil & Gas	7.7	17.3	125	3.6	12.1	235	.3	2.9	867
Simmons	32.2	65.5	103	39.2	122.4	212	2.4	8.3	245
Timken Detroit Axle	15.9	50.1	215	23.5	89.5	280	2.6	6.3	142
U. S. Plywood	3.5	41.9	1100	5.0	62.5	1150	.3	7.6	2430

as indicated, is most impressive. What counts most in the picture, though, is the vigorous progress attained by the smaller concerns compared with that of the giants, fully confirming the trends shown in our earlier discussion.

Individual Situations

Bearing in mind the pros and cons of the situation we have pointed out, it is interesting to study the individual potentials of some of these concerns as to medium term further progress. What with their newly achieved stature, can they develop further growth or have they reached maturity? In probing for an answer, it should be realized that growth in physical facilities is one thing, inventory expansion another and larger working capital still another. In other words the yardstick of total assets is very elastic, contracting or expanding according to varying circumstances. This applies with similar force to sales, depending upon whether unit output or dollar volume is considered, and to earnings in terms of the 1939 or 1948 dollar.



Total Assets and Sales for Manufacturing Corporations

In discussing the ten largest concerns we have selected, all but two represent industries where supply is not yet in balance with demand or where evidence suggests long sustained demand at current high levels. Steels, oils, automobiles, chemicals and electrical equipment are the main props of the present boom. While postwar expansion by some of these enterprises has been virtually completed, others still plan to spend large sums that in theory may extend their earnings gains. Larger and higher priced inventories tend to distort apparent growth in size of certain units, as in the case of American Tobacco Company. Though total assets of this concern increased 122% from 1938 through 1947, its net property account increased only 60%, while enormously increased stocks of raw and manufactured tobaccos soared by 220%. In order to carry this large inventory, furthermore, the company's debts were increased by approximately $260 million. The point is that if measured by growth in net assets, the percentage gain would have been only 40%. Similarly, an increase of only 28% in net profits is not too impressive since net sales rose by 213%.

The Giants of the Steel Industry

Both Bethlehem Steel and United States Steel have been cautious in expanding, due to fear of overcapacity in more normal times and confidence that with improved efficiency they can soon balance supply with demand. Both concerns have succeeded in expanding their profits at a much faster rate than their physical growth, notably so in the case of Big Steel. Among the (*Please turn to page* 45)

Realistic INVESTMENT YARDSTICKS to meet *Today's Conditions*

By FREDERICK K. DODGE

Every so often, prudent investment policy calls for a review of the general principles of selection and protection of security holdings, and this most assuredly is one of those times. The swiftly moving currents in the political and economic field not only complicate the problem of evaluating securities by introducing new factors, problems and uncertainties; they also require a change in emphasis in the application of some of the conventional yardsticks to cope with the realities of present and prospective conditions. This is not to suggest abandonment of the sound and workable tests of the past; but there is need for flexibility in their use by proper consideration of the new elements characteristic of the present stage of the postwar era. More than ever, careful discrimination is the keynote to sound investment strategy; without practical and realistic yardsticks, such discriminaton will be difficult.

Valuation of Earnings

Thus earning power, dividends and prospects are still major determinants of prices, but their evaluation has changed considerably. Investors seemingly do not concede that a higher dollar level of earnings will become a permanent characteristic of corporate operations. Rather, high postwar earnings are regarded as abnormal and transitory, as attested by low price-earnings ratios. This attitude ignores the fact that profits in many cases are not so abnormal when one considers the degree of inflation we have had. It also distrusts the reasoning that stock prices eventually are bound to move into proper alignment with other property values, and that a substantial measure of inflation is likely to remain embedded in our economy. Yet this is a perfectly valid point; the big question is: How much will remain? Or put differently: How much deflation can we expect in the process of adjustment to more normal economic relationships? There is every indication that the general price level will hold well above prewar for many years to come. A really drastic decline could occur only if it were possible to reduce the national debt substantially, and this is not in the cards; or if a large part could be permanently sterilized as a money supply factor, which is equally unlikely.

But once the inevitable correction of the price structure has run its course, stock prices can be expected to adjust themselves to the new potentials. If business remains prosperous, the adjustment may well be upwards, since stocks so far have not gone along on the inflation road. Even in the event of a moderate recession, we may find that it has been adequately discounted by present market prices. The outlook today favors the latter possibility, yet this doesn't mean that current stock prices are properly attuned to its potentials in terms of earnings and dividends. Needless to say, the market will remain sensitive to any progress of deflation, and the investor should watch the trend closely.

The Factor of Confidence

What keeps stock prices down is the market's inability to gauge earning power in an adjusted economy. Another basic factor is lack of confidence. Just how low the latter has fallen is graphically shown by the Magazine of Wall Street Confidence Index charted with this article. Its low ebb has continued in the face of the most prosperous peacetime business this country ever enjoyed. It was a certain aura of unreality, the various expedients that kept business going at a high rate, that militated against this prosperity finding proper expression in the stock market. Yet conversely, the very lack of confidence must have taken into account a substantial part of adverse possibilities. Logically their eventuation should find stocks less vulnerable than they otherwise would be; but public psychology can never be rationalized.

Speaking of lack of confidence, the international tension has been prominent in keeping the stock market subdued; latterly it probably acted as an even greater depressant than fears of a recession which—often postponed—even now may not be "just around the corner." Any waning of war fears should make for distinct improvement in market sentiment; any worsening of the outlook would have the opposite effect. If war should come, it would force a drastic revision of investment policies. But war today, despite increasing tension, still appears remote. Rather there is the growing prospect of the need for greater defense outlays with resultant disruption of our civilian economy, due to shortages, priorities, new controls, etc. This, too, will call for new investment decisions, if and when it comes to pass. It's another development that requires careful watching, since it may greatly alter the status and outlook of various industry groups and their com-

Approximate Classification of Industries According to Relative Wage Costs

Low Wage Ratios	Med. Wage Ratios	High Wage Ratios
Chewing gum	**Med. Wage Rates**	Machine Tools
Soft drinks	Cement	Farm Equipments
Cereals	Elec. Appliances	Office Equipment
Soap	Glass containers	Aircraft and parts
Tobacco	Bakeries	Locomotives
Vegetable oil products	Rayon	Steel
Paints & Varnishes	Glass (flat)	Cotton Goods
Cigars, Cigarettes	Radios	Ship Building
Printing Ink	Metal Containers	Railroads
Flour	Meat Packers	
	Tires & Tubes	
	Paper	

ponent companies.

So far we have discussed what seem largely "intangibles," however important they are as market factors. But there are other elements in the situation. Take something more concrete, such as dividends, and we find that the application of the yield factor, too, has undergone changes. To many investors, the value of a stock is its income yield, but investors today are demanding a higher yield. It is another factor that has kept stock prices down, with high taxes the principal villain in the picture.

In view of the large income slice that now goes for taxes, most investors insist on a yield of 4% or 5%, at least. Should taxes be lowered, stocks undoubtedly would move upwards, but hope for another tax reduction is slim. Fact is that to have a net yield of 4% or 5%, investors can only buy stocks selling at relatively moderate prices in relation to dividends. It is another reason why high postwar earnings have never been capitalized by the market at prewar standards. One might even go further and opine that the yield factor today places a definite ceiling on price appreciation potentials of stocks, since high prices automatically shrink dividend yields.

Dividends have a direct bearing on price-earnings ratios in more than one way. One reason, also, why

Classification of Industries According to Recent Demand Trends

Strong Demand	Stable Demand	Declining Demand
Aircraft Mfg.	Coal	Air Transport
Automobiles	Chemicals	Cosmetics
Automotive parts	Drugs	Industrial Machinery
Building materials	Food	Motion pictures
Electrical Equipment (heavy)	Household furnishings	Radio receivers
Farm Machinery	Office Equipment	Shoes
Meat	Paper	Textiles (cotton & woolen)
Metals, non-ferrous	Plastics	
Petroleum products	Retail Trade	
Rail Equipment	Tires	
Rayon	Tobacco	
Steel		
Television receivers		
Utilities		

price-earnings ratios are low is the fact that on an average, less than 40% of earnings are being distributed in dividends, against around 75% in most good prewar years. After all it's what you get that counts most. At present price-earnings ratios, it seems, very little value is given to undistributed profits, and only a reasonable value is accorded to distributed earnings as indicated by prevailing generous dividend yields.

The slow but steady rise in interest rates is likewise acting as a drag on the market. It places bond prices under pressure, widening bond yields, and that doesn't help stocks to get ahead. All of which goes to show that taxes and interest rates are important stockmarket considerations. No more so, however, than what might be broadly called "prospects." It brings us back again to the general economic outlook.

Piecemeal Adjustment

Instead of the much-feared recession and price deflation, what we so far experienced was a process of piecemeal adjustment among the various segments of industry. It is still going on, even broadening, and the market is watching this trend with the keenest interest. For while such an adjustment is necessary for economic health, it will have wide repercussions down to the company level. It will strengthen the position of the efficient producer, weaken those unable to reduce costs and meet competition at lower selling prices. Hence crystallization of such trends is naturally of foremost investor interest.

As far as sales volume is concerned, more and more industries are reaching demand-supply balance, a fact that has distinct investment significance. In some such as steel, automobiles, farm equipment and others, no such balance can be foreseen in the near future, hence volume and earnings promise to continue at recent peak levels. Competition does not enter the near-term outlook. In other lines, balance has been reached, pipelines filled and the competitive struggle is on. All of which needs watching.

Competition is bound to stiffen with re-establishment of buyer's markets, with high inventories, with consumer resistance to high prices, though fear of over-production may be overdone. But profit margins are likely to be affected. Return of competitive markets does not preclude satisfactory earnings by entrenched companies—far from it. While earnings may trend downwards, they should remain quite satisfactory as long as volume holds up. But marginal competitors are bound to suffer. Revival of competition will spell difficulties for those who have become careless about costs. High-cost producers generally will be squeezed, and this prospect requires careful investor consideration in weeding our potential "weak spots" in portfolios. There is need to watch sales trends in every industry where pipelines are filled.

Two-Fold Competition

As intimated before, competition in many lines will be intensified by consumer resistance to high prices; its impact, too, needs watching. Competition will be two-fold. What with high living costs, there will be competition not only among individual companies but also among industries for their rela-

tive share of the consumer dollar. The trend of living costs—uniformly higher so far—has a direct bearing on sales potentials of most consumer goods industries. Even a well-sustained level of overall business does not mean that such industries as movies and liquors, and the various luxury trades, can again expect to enjoy the relative freedom of competition for the consumer dollar characteristic of the war and immediate postwar period. It behooves the investor to exercise careful discrimination in this respect unless he wants to court serious disappointment.

All of which goes to show that more than ever before, it is vital to check consistently the premises underlying any conclusions on which investment decisions have been based. The constant flux in the economic situation, the ever-changing outlook for numerous industries as our economy works back to normal peacetime conditions renders this highly necessary.

Down to a company level—apart from a check of fundamental factors—a critical examination of balance sheets and income statements is indispensable for investment success. This is nothing new, but it appears even more vital under today's conditions.

Gauging Actual Earning Power

Reported earnings should be carefully analyzed, for the elements that go into the determination of net income sometimes differ widely. Watch for non-recurring profits or losses, for tax refunds, tax-free income, for book losses on the sale of assets. Corporations differ in the treatment of many such special items with the result that reported net is frequently distorted, one way or another. Some even change their procedure from year to year, making simple comparisons impossible. Watch also for temporary inventory windfalls, for special charges and reserves, and how they compare with previous write-offs of this kind, or for adjustments or final dispositions of items relating to prior periods. In other words, try to determine actual earning power.

Keep a sharp eye on volume trends and profit margins. At today's high break-even points, any falling off in volume can quickly cut earnings severely. Consider how much leeway a company's profit margin holds; the more the better!

Have a good look at inventory positions and the degree of their vulnerability to declining prices. Where the inventory risk appears substantial, caution is in order. To get a proper picture, study inventory policies and also the ratio of inventories to current assets and sales—and how they compare with other companies in the same field.

Depreciation policies, too, require careful study. There is a very real question to what extent current earnings may be overstated by inadequate depreciation charges in view of today's high replacement costs for fixed assets. Inadequate depreciation may, at some future time, affect common share earnings severely. And where inadequate depreciation is evident, stock prices will sooner or later reflect it.

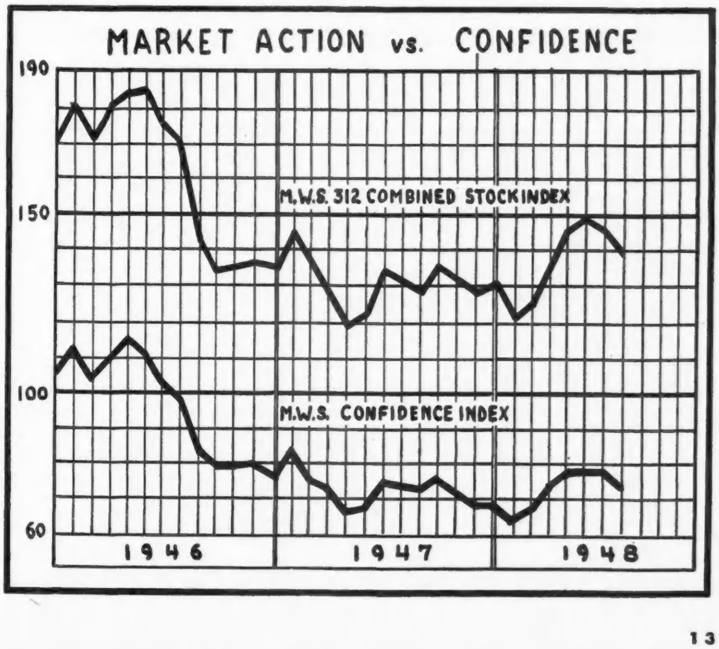
Where a company has markedly increased its indebtedness, scrutinize the amount of fixed charges in relation not only to current but prospective earnings under less prosperous conditions. If sales and earnings decline, fixed charges can easily become burdensome, militating against dividends on common stock. Watch for any restriction on dividends or in respect to working capital contained in bond indentures. In the vast majority of cases, fixed charges—due to low interest rates and a generally prudent financial policy by managements, are now easily bearable in view of high current earnings, but the picture may change, especially where break-even points are high.

Liquidity—Cost Relationships

Study also a company's financial liquidity and the adequacy of its capital in relation to today's sales and the cost of doing business. Inadequate capital may mean either restriction of potential business volume or the need for new financing, frequently calling for dilution of the common stock equity. Either can adversely affect the market action of a stock, as experience shows.

Cost relationships today are of particular importance. Most companies, as competition or consumer resistance tightens, will find it difficult to pass on in form of higher prices any future cost increase. A slim margin points to the danger of a serious profit squeeze. A high wage ratio signifies vulnerability to rising labor costs. The attached table lists industries in low, medium or high brackets in this respect.

Watch also for changes in raw material supply conditions; they can importantly affect the operating and earnings prospects of individual concerns. Mounting shortages of basic raw materials, particularly steel and non-ferrous metals, may spell enforced curtailment of operations and earnings. This will be important, should the defense program be stepped up. Easing of shortages, wherever it may occur, may mean stepped-up operations and enhanced sales and profit potentials, but also a speeding of the day when demand-supply balance—and its competitive implications (*Please turn to page* 47)



Where STEEL Shortage *Will Hit Most*

★ ★ ★

— VARYING IMPACT ON STEEL-CONSUMING INDUSTRIES

By HENRY L. BLACKBURN

Despite handicaps, steel production so far this year has been setting new high marks for peace-time operations in a determined effort to meet the seemingly bottomless demand for steel products of virtually every type. In the first eight months, industry output totaled 57.5 million tons of ingots and steel for castings, compared with 56 million tons last year and in excess of total production for the entire year 1939 or any other year in the 1930s. If operations over the remaining four months continue at the recent average rate, full 1948 raw steel output will be in the vicinity of 87 million tons, over two million tons more than last year.

In spite of this prospect, the outlook for steel today is more clouded than ever, the big question being: Will there be enough? Steel of course has been short right along, ever since the war; tight supply is nothing new to steel consumers. The trouble is that supply now threatens to become still tighter, perhaps very much so. Some steel consuming industries may get severely squeezed. The reason is that allocations and priorities will take an increasingly bigger bite out of the steel supply, shrinking the amount of "free" steel available to others. Some of these may have to get along with a good deal less steel than they would like to have, or could readily use at their current rate of operations. In the circumstances, who will be hit most is naturally an important question, portending as it does a forced decline in operations and operating profits.

Voluntary steel allocations so far passed by the Office of Industry Cooperation (OIC) will account for close to 10% of annual finished steel output of some 66 million tons, or something like 6.3 million tons. This apart from some 1.25 million tons of merchant pig iron similarly ticketed. These allocations go to a variety of preferred industries as shown in the appended tabulation, with priority use covering a wide range including such diverse end-uses as oil field tanks and other equipment, freight cars, warm air heaters (for housing), aviation and atomic research, barges and prefabricated steel houses.

Then there are voluntary allocations for military orders, for which some 1.23 million tons annually have been set aside. These are supposed to cover all steel requirements of the armed services, for their direct use as well as the use of manufacturers receiving military orders. Such manufacturers will now be able to produce military items without sacrificing part of their normal steel supply.

Added to these "set-asides" must be export requirements and Marshall Plan needs. Both are somewhat vague, but the latter are estimated at around 2.5 million tons during the coming year, while estimated exports to non-ECA countries are estimated around 3.7 million tons of finished steel products.

All this adds up to a grand total of over 12 million tons, reducing the available supply of "free" steel to about 54 million tons, and the scramble for it is getting worse by the day. What's more, "free" steel is likely to get still shorter. The foregoing "set-asides" do not consider the probability that additional voluntary allocations programs may be approved by OIC. Some now up for consideration may take an additional 1.5 million tons. Moreover, according to Commerce Department indications, regular steel exports may easily take another 3¾ million tons, all of which would further reduce the free supply. Any future stepping up of rearmament, or revival of lend-lease, would have the same effect.

Steel Users Are Getting Worried

Since both are distinct possibilities, it is little wonder that steel users are beginning to get an empty feeling in the stomach. Indicated withdrawals from the free supply will substantially exceed the additional production, anticipated this year, of around three million tons of finished steel. And the market supply is further reduced by diversion of an estimated one million tons through purchases of

steel mills by large consumers.

So far the impact has not been too severe, since many of the allocation programs have not as yet taken effect; when they do, the squeeze will be on. In anticipation of it, there has been a good deal of steel hoarding. Once the squeeze starts, OIC can expect frantic requests for allocations by particularly hard hit industries.

Another feature is that the allocations program is creating a chain reaction which in time may push certain "free" end uses into the allocations category. For instance, almost one third of expected steel plate production during the fourth quarter is earmarked for freight cars, tankers, barges, oil tanks and equipment, military needs, etc. Thus steel plate for free use will become quite tight. Similarly steel sheets where allocations may take 15% or more of output, and structural shapes which are down for 22% of production. Multiplying allocation programs, in other words, may further infringe on the free supply to the extent of threatening a breakdown of normal distribution. Altogether, whether "set-asides" next year, for one purpose or another, will take the form of a voracious bite or merely a painful nip depends importantly on Marshall Plan requirements, the trend of steel exports and future military needs.

Who Will Get Less Steel?

But regardless of the degree of shortage, durable goods lines face a dwindling steel supply and the shortage will be felt progressively from now on. It means that big steel users with scant hope for priorities are in for enforced curtailment; small users have already been hit hard because of inability to compete for supplies. Those likely to be most affected include the makers of passenger automobiles, of household equipment, of electrical appliances, of steel containers, and probably a good many other industries; all will have to get along with less steel. Automotive parts makers, too, stand to get less as the free supply of cast iron components contracts. The construction industry is another one that is in for a cut, though in some instances, other materials conceivably could take the place of steel.

Perhaps few who read about steel shortages realize that a large part of the unprecedented demand for steel is based on economy grounds as well as manufacturing progress. Costs in many cases make it essential to use the cheapest and most satisfactory material; steel prices even today are up less than those of many other metals, and new alloys and techniques have made possible the substitution of steels for non-ferrous metals in many fields. A notable case is kitchen equipment. As late as 1945, only about eight per cent of kitchen sinks were made of steel; in 1947, it was 50% and so far this year about 55%. For several years and notably since the war, steel has become increasingly popular for kitchen cabinets, for splash boards and other equipment, chiefly made from sheet and strip. Thus the housewife has become a prominent contender or consumer for the flat-rolled products which are essential to automotive and other industries.

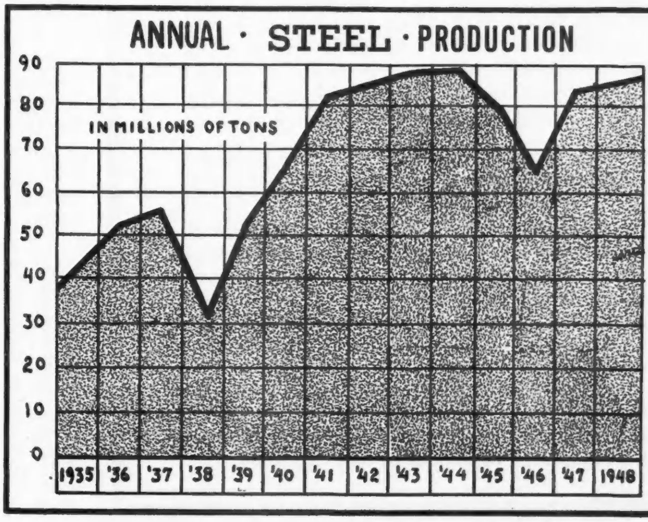
Pressure for steel, from all these sources, is extremely heavy and is not likely to diminish in the months to come. If production is forced down, due to lack of steel, it will mean in many cases that order backlogs will continue to pile up rather than decrease. In other words, the demand-supply situation will remain unbalanced for an indefinite period. In some appliances there is a buyer's market, but this does not mean that appliance makers have let up on their pressure for steel; presumably they endeavor to accumulate as much as possible against the day of further supply reduction. Oil companies complain about the lack of oil field supplies, notably pipe. Since manufacturers are not likely to have their quotas increased, pressure from this source will grow and ultimately may be successful in view of the industry's vital nature.

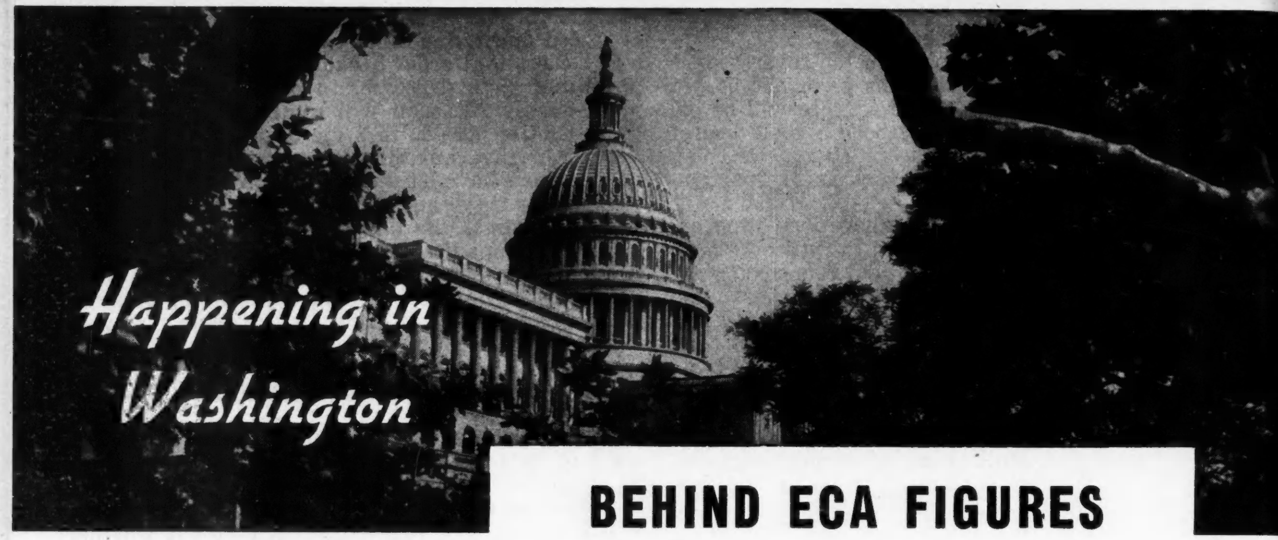
Equitable Distribution Necessary

The automobile industry normally uses about one-sixth of all finished steel but its share now is bound to shrink—how much, no one knows. Undoubtedly the steel mills would like to soften this blow to their best customers but it is extremely doubtful whether they can, for repercussions would be quick and loud. They will have to try to distribute the free steel supply as equitably as possible. The container industry will probably get all the tinplate for food use but for other types of containers such as beer cans, less steel will be available. It will be a windfall for glass and paper containers.

Unpromising as the outlook is, there are two silver linings. One is that allocations under priority programs—apart from military requirements and exports—can hardly be considered a net drain on the available supply. Most of these go to industries that would have been using an appreciable amount of steel anyhow; while allocations give assurance of adequate supply, they do not reduce the amount of "free" steel in fully equal proportion. The actual drain may be considerably less, though not enough so to warrant the assumption that "free" steel shouldn't change much from 1947. It most assuredly will.

Another and more important factor is the prediction of substantial gains in steel output next year, with optimistic forecasts running as high as 94 million tons compared with this year's probable output of 87 million tons. Should such an increment materialize, the steel short- (*Please turn to page* 43)





BEHIND ECA FIGURES

By E. K. T.

ASSUMING the experts are right this time, and Gov. Dewey becomes President of the United States in a victory of landslide proportions, he may run into a problem that gave President Roosevelt great trouble when he came to the White House under similar circumstances. The GOP stands an excellent chance of winning more House seats, making its majority topheavy. FDR found himself with an overwhelming majority in the House, soon saw it break up into regional groups and factions. Party success didn't call for solidarity then, and the democrats worried the President by tempting political fate. It could happen again in January 1949.

WASHINGTON SEES:

Unless ECA adopts a policy of writing its periodic reports in clearer fashion, a wedge will be driven into Anglo-American relations—in fact the success of the Marshall Plan may be seriously clouded.

Figures soon to be released will show that 1.263 billion dollars of the first year's direct aid under the plan will go to Great Britain. This is about one-fourth of the first year total, with 17 other beneficiaries sharing the rest.

This figure seems disproportionately to favor the British, but there are facts wrapped up in the transaction that should be told. For example, Britain has agreed to make 282 million dollars available to other European countries, principally to France. With direct aid from the United States, the contribution from Great Britain, and additional amounts from Belgium, France will receive 1.31 billion dollars as against Britain's net 981 million dollars.

There has been advantage to the complaint that ECA beneficiary countries have simply been going along for the ride rather than using the funds they receive to assist in building to self dependence. Most criticized because it receives the largest amount has been Britain; actually, the British have been the ones implementing the Marshall Plan's underlying aspiration most by undertaking to help finance the weaker economic spots.

In Washington Embassy circles there are reports that the British representatives here are fed up with criticisms, desperately need the help but think ECA should tell its story more fully and fairly.

NO SURPRISE was the action by the Department of Justice to break up the meat packing "Big Four"—Swift, Armour, Wilson and Cudahy. Its roots were placed by Thurman Arnold before the outbreak of war, when he headed the antitrust division. Arnold had launched many inquiries, they had reached varying stages toward completion, but only the packers case was "wrapped up" when the war halted all. It was necessary only for Tom Clark's men to pull together loose ends, breathe new life into the files and move into court.

SHORTNESS of memory is being charged to President Truman following his revival of the hackneyed "Wall Street issue" in the national campaign. It was only recently, he'll be constantly reminded, that he discussed the subject of enlarged incomes (in his acceptance speech at Philadelphia, to be exact), to point out that farmers, and wage and salary earners are better off today than at any other point in history. Improvement in financial position was cited then as something greatly to be desired, its achievement a virtue. But some how, within a few weeks, it has become a vice!

BACKFIRE of the federal worker loyalty program is a certainty. That the record of results is excellent isn't denied by any partisan in the Capitol seriously interested in tracking down subversives in high or low public office. But the conservative, republican chairman of the Civil Service Loyalty Review Board sees the heavy hand of politics in an election year threatening to obliterate the good. "No one," says Chairman Seth Richardson, "can tell now what will happen. I'm afraid to say what I really think." Forecast of developments within a month is being made.

As We Go To Press

The ever-normal granary idea, pooh-poohed when Henry Wallace lifted it bodily from the pages of his Bible, is under serious consideration today. Adequately noted in the press was the fact that the United States will have an all-time record production of agricultural crops this year. That the world production is immensely better than a year ago, has been given scant attention, but it figures in the overall planning. After the election, revised crops reports will be issued -- and they'll be way above the September 1 mark, high as that was.

The large production, plus diminishing prices can only mean a drastic adjustment downward in some prices. Major commodities are protected by legislation. That means, while the laws last, high prices to the consumers, or subsidy to the farmer. Clearly indicated is the battle that will take place on price support legislation for agricultural production next year.

Department of Agriculture is sending up trial balloons on the idea of a 10 per cent cut in crop production next year. It is clear that the farmers, relying on price support legislation now on the books see 1949 as the last year of protection at relatively high prices. After that he may expect acreage allotments, lower price supports, and marketing agreements which will cut deeply into his "take home" pay.

Almost unnoticed is the fact that the National Security Resources Board is showing signs of activity in this direction. NSRB has been directed by the President to prepare plans for all forms of mobilization -- industrial, labor, production, etc. Stockpiling is of the essence. And it is understood that agriculture will be the next segment of the economy to be studied.

Phases to be touched run the gamut from production to distribution, with in-between play upon rationing, price control, allocation, priority, and (here is where the ever-normal granary would come up again) upon storage. The Department of Agriculture will cooperate in the study; in fact will supply most of the information. There's an element of the scary in all of this -- its broadness; but there's reassurance in the fact that it's only planning, not legislation. And it may never be translated into laws and regulations in its major parts.

Elimination of Federal and state conflicts over areas of taxation is an issue on which his advisers have sold Gov. Dewey. If the New Yorker comes to the White House in January, the subject will receive prompt attention. Gov. Warren, assuming he becomes the "working Vice President," probably will get the chore. Warren, too, favors a redefinition.

Strangely, the subject appeals to most parts of the country -- yet nothing has been done about it! Democratic states in the south (which benefit most from the redistribution of taxes collected by the Treasury, since they receive much more from Washington than they send here) see the proposed change as a victory for state's rights. Taxpayers in the more prosperous states like it; they wouldn't be "tapped" so hard to provide many benefits for other states.

When labor groups lay aside their current major interest -- working to bring about the election of President Truman -- they will square off for family fights which will run from the top to the bottom of both the American Federation of Labor and the Congress of Industrial Organizations. Ultimate control of each is at stake.

The fight comes because of the reasonable certainty that John L. Lewis soon will step down, offer no resistance to his powerful United Mine Workers making peace again with the CIO, and the reasonable likelihood that William Green will finally drop the reins of AFL. Lines are forming in support of aspirants but the contest is thinning to a pair of outstanding well-backed, well-heeled candidates.

David Beck is president of the International Brotherhood of Teamsters, largest unit within the AFL. Walter Reuther is president of the United Automobile Workers, the largest unit in the CIO. Present indication is that the mine workers will join with the auto workers (when the return of the former to the CIO is effectuated), dump Philip Murray as CIO chief and install Reuther. Beck, with more than one million members in his organization is top man in the field for AFL president and he has no serious rival close by.

The country's industrial plant saved for, or readily convertible to, war production is levelling off numerically at 400 factories with value difficult of estimate but which cost six billion dollars to construct. The government owns few outright and absolutely; most either are sold with recapture clauses, or are leased to private industry.

Meanwhile, Mobilization planning of the armed services now embraces 14,000 facilities of prime contractors alone, the Munitions Board has disclosed. These are being subject to constant inspection to chart changes which might happen affecting productive capacities.

The inspectors are picking up other information also. One of the complaints most frequently met is that contracts, accounting, and inspection during the war added to cost, and cut production. The Munitions Board has turned its attention to that, promises correctives.

Washington should be a fertile field for job-hunting, if $10,000 a year is any inducement. In the Department of National Defense alone, 41 jobs at that salary level are going begging. Of these, 13 are army posts, including an assistant secretary. The navy and air force have 10 such vacancies each, and the Defense Department has eight spots in the overall branch. There are 14 other $10,000-a-year jobs open in agencies of the government.

Uncertainty over the election is the prime reason. Few men of the qualifications required are willing to sever present associations to take appointments that may be good for only a few months. And since all the appointments are to key civilian offices in which policy will be molded to some degree, change of administration means a new packing of bags, departure.

Another reason: the current spy hearings have made scientists reluctant to come to Washington to make their services available. Of the vacant jobs, more than 30 call for scientific training of the highest order. Scientists are poor politicians; they are inclined to seek out, compare, information on discoveries affecting their fields whether the discoverers thereof live in Moscow, N. Y., or Moscow, U.S.S.R.

There is still another reason: a $10,000-a-year salary with the current inflated costs doesn't produce the living that it did only a few years ago. President Truman has found it hard to fill high positions with the present salary ceiling.

Gov. Dewey realizes he'll face a real problem if he comes to Washington next year, and already has set the machinery in motion for congressional action upping the pay levels. If elected, he'll draw heavily upon the staffs which surround him at Albany, but he'll be confronted by the fact that New York pays its officials more than the Federal Government does, except the chief executive.

Sir Stafford Cripps, Britain's economic czar, is having his hands full

Lessons in FAILURE of SOCIALISM in BRITAIN

By V. L. HOROTH

The delegates of the British Trades Union Congress assembled for an annual conference early in September in Margate near London. It was a gathering of sober-spirited, puzzled people who found themselves in a blind alley of their own making. One London paper described it as "the conference of a hundred headaches" and another as "a wake without drinks."

And "a wake" it was for British socialism; the speakers denounced, if only indirectly, the restrictive practices of the unions and acknowledged, also indirectly, that it might be better to shelve nationalization and socialist planning temporarily because of their failure and because they retard the economic recovery of the country.

There was none of the old fashioned haranguing against excess profits and "capitalistic exploitation." Speeches for higher wages and less work were discouraged by the TUC council, though one delegate half seriously and half jokingly permitted himself to demand "more incentive at the end of the week." Instead, the delegates were lambasted by the "happy apothecary," Sir Stafford Cripps*, who said that there was no use looking to profits for easy pickings. Even if corporation profits were reduced by a quarter, he explained, it would mean an average addition to wages and salaries of no more than 4 pence on the pound (1.5 cents on the dollar).

A Tory chancellor could not have been more explicit in driving home the fact that any real increase in Britain's standard of living must come not from dividing "the national cake," but from producing more and more efficiently. "We must get more per man-year, and quite a lot more," thundered Sir Stafford. "Either we must use more muscle or more brains, and I am in favor of more brains. I would rather see the introduction of new methods and new machinery than longer hours of work."

Sir Stafford had some reassurances to give to his austerity-ridden listeners about the recovery of foreign trade, the volume of which has reached 130 per cent of prewar, and about the reduction of the gap in Britain's international payments to the annual rate of £280 million as against the actual deficit of £630 million in 1947. But he also pointed out that the labor force, the increase of which has been largely responsible for the expansion in production in 1947 and this year, may fall rather than rise in the period ahead. Since at the the same time, the outlay of capital for new machinery and equipment —on which is dependent a higher productivity of the existing labor force—must continue to be restricted to £2,000 million per year, there is a real danger that the production curve will show a tendency to flatten out rather than rise. An analysis of national income trends published recently in the London Financial Times suggests that the rise in Britain's output is already tending to come to an end.

In general, the Margate conference revealed the sorry plight in which the British Labor Party finds itself. Its leadership now has to sell the workers the idea that strikes and work stoppages are against

*The Central Planning Board, of which Sir Stafford Cripps is the chairman, has earned the unkindly nickname of "the Society of Hypothecaries," which in popular parlance has become "the Society of Apothecaries."

Estimated Output Per Worker and Per Man-Hour in Great Britain and the United States

(Index Numbers, Great Britain = 100)

	Output Per Worker U. K. 1937	Output Per Worker U. S. 1937 or 1939	Output Per Man-Hour U. K. 1937	Output Per Man-Hour U. S. 1937 or 1939
Pig Iron	100	364	100	452
Cement	100	94	100	121
Cotton Spinning	100	150	100	167
Cotton Weaving	100	200	100	255
Rayon	100	143	100	167
Paper	100(a)	224(a)	100(a)	281(a)
Machinery	100(a)	268	100(a)	340
Rubber Tires	100(a)	271	100(a)	422(a)
Tin Cans	100	573	100	709
Radio Sets	100(a)	348	100(a)	414
Motor Cars	100(a)	306	100(a)	396
Boots and Shoes	100(a)	152(a)	100(a)	202(a)
Hosiery	100(a)	176	100(a)	234
Beet Sugar	100(a)	102(a)	......	......
Grain Milling	100(a)	174	100(a)	197

(a)—1935 = 100.
Source: Comparative Productivity in British and American Industry (Rostas).

their own interest, that the latest demands for wage increases are out—notwithstanding rising prices—except in cases where production has been increased, and that the alternative is inflation and catastrophe for all, including labor.

With the world seller's market slowly fading out and competition increasing in export markets, there must be more initiative and greater freedom to buy and sell if Britain's business brains are to meet the rapidly changing situation. In order to sustain Britain's recovery and that of Western Europe as well, the Labor Government will have to remove gradually some of the controls over distribution and exchange, and permit a general shift to the right—even at the cost of admitting that the socialists have been preaching nonsense in many respects. Cost-cutting is impossible, as every adjustment must be fought for tooth and nail with bureaucratic "super-numeraries"; and as long as most of the industries cannot shop around for cheaper materials and fuels because the Government is the chief importer and the chief supplier. Under these circumstances, the Government's heavy-handed, fumbling, inelastic controls cannot help but stifle the businessman's efforts for adjusting himself to a new situation.

Recovery vs. Reform

Britain is not alone in facing the problems of freeing its economy of wartime controls. All Western European countries are up against the necessity of stressing recovery as against reform, and of moving to the right. Belgium made the decision some time ago with the result that its recovery has progressed further than that of any other Western European country. In Sweden, the recent electoral victory of the liberals at the expense of the socialists indicates that the country is getting impatient with socialistic planning. As pointed out in the last issue, the Reynaud Program would have brought about the re-establishment of a freer economy in France—but unfortunately this expectation has proved to be premature. In Western Germany, the removal of controls over business in connection with the currency reform has already brought about an unprecedented business revival. German (bizonal) industrial production is now 50 per cent higher than it was at this time last year.

The Margate speeches also revealed that the British Labor Party leadership has come to recognize that pressure tactics against capital and management are against the workers' own interests, that there is a place for profits even in a socialistic economy, and that only through the cooperation of labor with capital and management can the problem of low productivity be solved, which has blighted British industry ever since the end of the First World War. In this connection, one may mention a recent decision of the general council of the TUC that joint control by trade union representatives and management in nationalized industries is undesirable, and that the Boards should contain only people appointed for merit, and not by (labor) pressure groups.

No Party Unity

The Labor Party is far from united on the steps that are to be taken in the present dilemma, and has a difficult time in fending off critics within the party ranks. Last spring, Mr. A. Edwards, Labor M.P., was read out of the party because he called upon the Government to face facts and give up the plan for nationalization of the steel industry. On the other hand, the demand by the socialistic (left) wing of the party for immediate nationalization of the steel industry was called impractical.

The former trade union leaders, such as Mr. Bevin and Mr. Morrison, are apparently inclined to put on the brakes until they are confident that the industries already nationalized are working properly. They oppose higher wages unless there is an increase in productivity and production, and favor a certain amount of decontrol. The socialist wing of the party (Mr. Bevan and Mr. Zilliacus) is for higher wages, and for nationalization regardless. Prime Minister Atlee probably represents a compromise between the two. To date he has been able to reconcile the differences, but the question is: Will he be able to do so in the future? Will he be able to hold the party together? How will the workers react to the rejection of wage increase demands by the TUC council?

The Labor Party's broad program has been socialism and its main objective the nationalization of the means of production, distribution, and exchange. Actually, the program of nationalization has been carried out with caution and a willingness to accept corrections. The program accomplished thus far includes the nationalization of the Bank of England, the coal industry, the electricity and gas industries, communication and wireless corporations, railways, and long-distance trucking corporations. The nationalization of iron and steel companies has been announced, but no definite time has been set for carrying it out.

There may be an argument for nationalization if it opens a way for the rehabilitation of industry and for increasing its productivity, or where the situation may be so complex and pressing that there is no agency except the Government to tackle it. Such a situation existed in the British coal industry, which was in serious difficulties already before the First World War, and which would probably have

been nationalized irrespective of which political party won in 1945. On the other hand there was no need, for example, for the nationalization of the railways or trucking companies, both of which were operated efficiently and at reasonable rates. Nobody knows what purpose their nationalization intended to serve—except to obtain socialist control of the British economy.

Nationalization No Panacea

But it has gradually become obvious that even in the case of an industry like coal, which was ripe for it, nationalization is no panacea. The first annual report reveals that the problems of management, production, costs, and above all labor relations continue to exist as in a privately operated industry, and in an aggravated form. Sir Charles Reid, prominent mining engineer and a Labor Party member, who resigned as the Chairman of the National Coal Board which manages the industry, called nationalization "a tragic experiment" and "a disastrous failure." He made this pertinent comment: "None the less, we have also applied nationalization to certain other vital industries and are about to apply it to more. This we do, not because we think any longer that nationalization will "work," but because we have so long held out the bait of nationalization to our supporters that we cannot now denounce it."

The mines operated with a deficit of almost $100 million, according to the first annual report. Yet Britain has hardly been able to take care of its own coal needs. The miners are dissatisfied and complain that it takes much longer to get any action at the factory level than it took under private ownership. Management is too centralized and inflexible. No wonder that many workers in other industries are losing their enthusiasm for nationalization, and that in the iron and steel industry the unions have come out openly against it.

The ultimate objective of socialism is economic equality. In pursuing this goal, Labor Party endeavors have been successful—indeed too successful. The poor in Great Britain unquestionably eat better and are better housed than ever before. The rich eat less, and their living standards are gradually but persistently being lowered. The situation has long since reached the point where further redistribution of wealth and income represents a social and economic detriment. Great Britain today suffers from too much equality, too much drabness, too much "sameness."

Deadening Effect of "Economic Equality"

Visitors to England bring back tales of sluggishness, individual indifference to bettering the standard of living, and lack of incentive. There is no "keeping up with the Joneses," there is little in the way of the "niceties of life" for the average citizen; extra exertion means almost invariably higher taxes. More and more people are being alarmed at the deadening effect of "economic equality" as the Labor Government understands it. Thousands of discouraged, confused young men are trying to emigrate to escape into the lands of less "equality" but more opportunity.

Blow to Initiative

The Labor Government's passion for economic equality has brought about two developments: (1) Little individual and collective effort on the part of the people to enlarge "the national cake" so that they can get a bigger slice; and (2) the creation of a bureaucratic machine of some two million people that sees to it that "the national cake" is kept ideally "sliced." This bureaucratic machine exercises the power of life and death over practically every segment of Britain's economic and business activity. Here is how Professor John Jewkes of the University of Manchester describes the contemporary situation in Great Britain in his book "Ordeal by Planning":

"No pen can fully describe and no mind could wholly grasp the vast mesh of controls in Great Britain that now circumscribe everyday action. But a casual reading of newspapers over a few months throws up sufficient cases to provide some notion of the extraordinary fine network of restraints and hindrances that surround us. For example, the dispatch of a small shipment of six drums of lubricating oil involves the filling in of forty-six forms, requiring forty-two signatures, not including the customer's invoice or delivery notes."

The London Economist, a liberal paper, on whose sympathy the Labor (*Please turn to page* 43)

Great Britain: Subsidies, Prices and Wages

	Cost of Subsidies(a)	Prices of Imported Foods	Cost of Living Index	Wage Rates
	000,000 £	1939=100	1939=100	Sept.'39=100
1939	13	100	100	100
1940	63	119	117	111
1941	96	124	126	121
1942	143	136	127	130
1943	152	140	126	135
1944	225	147	128	142
1945	308	159	128	150
1946	364	177	128	161
1947	392	194	128	168

(a)—Fiscal years ending March 31.

Consumption of Primary Commodities in U. S. and Great Britain

	United States			Great Britain		
	Average 1934-38	1947	% Change	Average 1934-38	1947	% Change
Wheat (000,000 bushels)	685	841	112	189	224	119
Sugar (000 tons)	5,923	5,640	95	2,470	1,815	84
Cotton (000,000 lbs.)	2,973	4,711	158	1,323	851	64
Wool (000,000 lbs.)	310	520	170	414	422	102
Rayon (000,000 lbs.)	274	952	347	106	115	109
Rubber (nat. and synth.) (000 tons)	500	1,123	125	101	154	152
Copper (000 tons)	572	1,235	216	350	355	102
Lead (000 tons)	386	505	131	375	200	53
Tin (000 tons)	435	694	160	209	222	106

What Significance To INVESTORS

—Increasing . . . CORPORATE Indebtedness

★ ★ ★

By J. S. WILLIAMS

Exceptionally favorable borrowing terms and ample credit facilities in postwar have induced rather sizable debt expansion by various corporations. Where this trend has developed in line with capital programs designed to enlarge or modernize facilities, the prospect of substantial returns upon the investment in relation to low interest charges has enhanced potentials as to future common shares earnings and dividends. This surmise, though, takes for granted that no serious recession in volume will crop up to narrow profit margins, and no dividend reductions occur due to the impact of heavy sinking fund provisions or restrictive clauses in bond indentures.

Another factor encouraging debt formation of late has been poor stock market conditions, not to mention the reluctance of managements to dilute equity values through an increase in outstanding shares. As a result of various influences, corporate financing has turned to large scale term borrowing from banks and insurance companies as against the more conservative practice of selling preferred stocks or equities. According to Government statistics, manufacturers alone increased their long term debt by about $2.2 billion from the beginning of 1947 through the first quarter of 1948. In contrast, new issues of corporate senior and common stocks sold involved only about one quarter of the sum raised through bond sales. Provided the road ahead proves relatively smooth in coming years, holders of equities may benefit from this emphasis upon low rate financing, but in some instances it might lead to adverse dividend adjustments.

Under current boom conditions, with sales and profits of so many concerns establishing all time peaks, fixed charges in relation to earnings often seem so modest as to appear inconsequential. Indeed, if comparisons are made with a decade ago, the interest accounts of numerous strong corporations have actually shrunken through retirements or refinancing at lower rates. This factor, though, influences income statements only, on balance sheets, term debts outstanding may still loom large, and to ascertain sinking fund requirements, it is necessary to probe back of all these figures. In theory, of course, the retirement of term indebtedness should become effective through the application of earnings as time passes or by inventory liquidation. During a sharp business recession, though, either of these processes might entail reborrowing lest dividends are to suffer.

Inflationary forces have now pushed break-even points of most corporations so high as to cause serious worry, if widespread volume declines should begin. A wave of softening prices would bring about such a situation quite as much as reduced unit output, and in combination the impact upon profit margins would be severe. Cost accountants of numerous enterprises have pointed out that a drop of only 15% in sales might completely wipe out their present very satisfactory earnings rate. Under such circumstances, a seemingly insignificant element of fixed charges might suddenly become of importance, despite the comfortable cushion provided by current record profits.

What If Trend Reverses?

What tends to heighten anxiety on this score is that many of the most efficient managements admittedly are unable to ascertain just what their break-even point now really is. The upward spiral of costs and prices of late has led to some confusion over what steps should be taken in case the trend reverses. Fixed charges and certain forms of overhead are static and hence easily determined, but varying costs when volume starts to drop are exceedingly hard to estimate, often causing serious losses before adequate adjustments can be made. Where enlarged facilities have been financed through borrowing, moreover, an unproductive period causes heavy shutdown expenses while interest and sinking fund payments must be promptly met. In the circumstances it must be recognized that the time may come when corporate debt of some enterprises now seemingly very prosperous is worthy of closer examination. Since more than 80 concerns paid lower dividends in 1947 than in the preceding year, chiefly due to volume declines or cost problems, investors should be forehanded in studying whether debt might hamper dividend stability of any given company later on.

On an appended table we list thirty outstanding concerns to show variations in their fixed charges and net income in 1937, 1945 and 1947. For the most part,

the ratio of fixed charges to net profits in any of these periods is so small that any future threat to dividends seems illusory. In other words it can be accepted as certain that many of these experienced and conservative managements have attuned their borrowing policies to any adverse conditions likely to appear in coming years. But where a study of such cases engenders confidence in their equities, others on the table may invite caution or have already proven the validity of points brought out in our discussion. A better understanding of the subject may induce our readers to study the debt status of other concerns not included.

Perhaps the best way to clarify our comments is to start with some of the moving picture concerns, for their fixed charges may in part have accounted for recent dividend reductions or lapses. It is irrational under any circumstances to attach full blame to sizable interest requirements for creating lower net earnings, but their contributory influence can be important. Subscribers to our Magazine read in our September 25 issue a detailed account of the numerous difficulties plaguing the motion picture industry. Sharply lower revenues and conversely higher costs squeezed margins of all concerns in this industry severely in 1948 and distributions to stockholders this year have generally been disappointing.

An Example

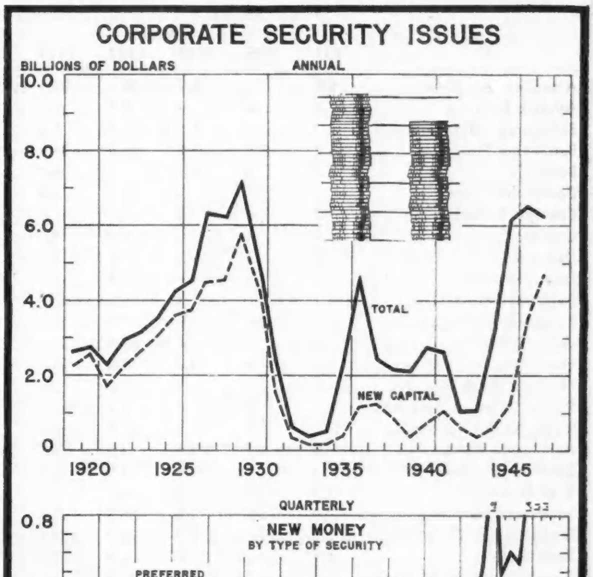
Twentieth Century-Fox Film's revenues declined about 14% in the first quarter of 1948 but inability to control costs forced net earnings down by 50%. Hence during the current year 50 cents per share quarterly dividends have been paid compared with 75 cents in 1947. As of December 30, 1947, the company's subsidiaries had outstanding $23.8 million of funded debt, besides which the parent concern had arranged a revolving bank credit for $25 million on which it had borrowed $5 million. Fixed charges of almost $800,000 last year were earned 17 times over but obviously the margin has narrowed abruptly. Looking ahead, if the revolving credit is fully utilized, interest charges will expand by at least $300,000 annually, and by December, 1950, the principal must be repaid at a rate of $250,000 quarterly. The indenture provides that net current assets must be maintained (on a non-consolidated basis) equal to the greater of $25 million or 125% of notes outstanding. Additionally, cash dividends will be restricted somewhat to limits figured in such a complicated manner that to explain the formula of them would only confuse our readers.

We cite these technical factors with no intention of arousing apprehension over the ability of this sound concern to prosper in coming years. As a leading producer and distributor of films, Twentieth Century-Fox has an advantage in a depression resistant industry and is very ably managed. Chances are strong that its net earings will improve next year and as the years pass, its fixed charges and sinking fund payments create no problem. Rather we have probed this situation to disclose some elments in the debt equation that might prove troublesome to many less well situated concerns in any industry that may sooner or later experience a drop in revenues, forcing a change in dividend policies at a future date. While our discussion covers only actual fixed charges, we remind our readers that preferred dividends and sometimes sinking funds on senior stock issues deserve equal close study in weighing long term potentials for stable dividends paid on the equities. A pinch in overall earings could be strongly reflected here as well.

Ten years ago Westinghouse Electric Corporation had no fixed charges on its income statement but in 1945 they showed as $1.2 and at the end of 1947 had risen to $2.3 million. After allowing for these last year, along with $13.5 million reserves for contingencies, net earings of Westinghouse after taxes amounted to $48.8 million, so that fixed charges were a relatively very small factor. On a per share basis, they amounted to only about 17 cents. $20 million of debentures 2½s maturing in 1951 carry no dividend restrictions, though $30 million 2⅝% debentures due 1971 provide that no cash dividends shall be paid if consolidated current assets do not equal current liabilities. A sinking fund on the latter issue requires redemption of $750,000 debentures annually during the 1952-70 period. Stockholders have authorized the company to sell up to $80 million new debentures to retire bank debt and debentures maturing in 1951 but the terms are not yet available. Quite clearly, though, an impregnable financial status has brought few dividend restrictions in the past and the situation probably will not change.

Schenley Distillers

Schenley Distillers Corporation represents another case where fixed charges have risen considerably in the last decade. Inventories of whisky in this industry are characteristically heavy because several years are needed for aging. Back in 1937, though, ordinary bank loans of around $17 million sufficed to finance Schenley in carrying inventories of $48 million. At the end of 1947, inventories had soared to $166 mil-



lion due to higher costs and large carries. In consequence the company had outstanding $125 million of bank loans part due in 1951 and the balance in 1955, bearing interest at 1¾% and 2% respectively. Total interest charges paid in 1947 added up to $2.4 million. Though Schenley's net property account rose from $16.5 million in 1937 to about $50 million at the end of 1947, the company incurred no debt in the process. Should a price war develop in near term years, as happened in former periods, Schenley's large inventories could recede rather rapidly in value, though net current assets of $222.4 million could absorb substantial inventory losses. Last year's net earnings of $22.4 million were sharply lower than the record $44.1 million reported a year earlier, though a reverse trend may occur in the current year. The point to consider is, while the company's earnings still cover fixed charges by a wide margin, the sum of $2.4 million in figuring profit margins during a period of declining prices might exert a significant leverage in reducing net earnings available for dividends. This does not imply that shareholders should view this potential with undue pessimism, but merely indicates that it should not be casually overlooked. Schenley's funded debt carries no burdensome restrictions as to dividends or any sinking fund provisions.

In the Air Transport Industry

Transcontinental & Western Airlines, like most of its competitors, has burdened itself with a large debt in order to acquire its postwar fleet of modern planes. Operations of this concern during war years was profitable, producing total net earings of about $8.7 million in the 1942-45 period. The bright outlook for the industry in postwar, provided modern equipment was acquired, led TWA to borrow $39 million in the form of sinking fund debentures, since when it has borrowed an additional $3,6 million with airplanes as collateral. Sinking fund provisions require payment of $1 million in the current year, $2 million in 1949 and $3 million annually for a number of years thereafter. Interest charges of TWA in 1947 amounted to $1.5 million. But the company operated at a net loss of $14.9 million in 1946 and $8.1 million in 1947. During the current year it is thought that operations have turned into the black, but working capital has been so reduced that the company is experiencing a tough problem in attempting to meet its obligations. Here we have an outstanding example of how over-optimism in debt creation has seriously imperilled the interest of shareholders in one of the largest units in a major industry.

Turning again to the other extreme, it is interesting to study some aspects of debt burden assumed by the strongest and most prosperous concerns in the economy, not so much under current satisfactory conditions but with an eye on the unpredictable future. Let's take United States Rubber, for example. Record sales of $581 million in 1947 enabled this concern to report net income of $21.7 million, compared with which fixed charges of $2.1 million are of minor import. Our table shows that interest charges back in 1937 were $.5 million higher, though volume then was only $186 million. During a half century of progress, though, earnings of U.S. Rubber have been spotty and during more than one decade no dividends were paid on its common stock. Should economic conditions deteriorate later on, the element of fixed charges and sinking funds could expand in significance. As it happens, total funded debt of the company is conservative, aggregating $101 million at the end of 1947, $80 million of it not maturing for twenty or thirty years and carrying an interest rate of 2⅝%.

Aside from interest charges, however, sinking fund requirements call for retirement of $2 million annually between 1957 and 1970 on one issue and from $1.5 million up to $4.5 million from 1953 to 1966 on another. Nearer at hand are bank loans that require repayment at the rate of $3 million annually through 1954. While undeniably these sizeable sums will create no problem for this strong concern, they place a pretty heavy premium upon favorable conditions in distant years. In the event they should occasion any strain upon working capital, cash dividends cannot be paid unless a certain ratio of current assets to current debts is maintained.

Comparative Statistics on Fixed Charges and Net Income

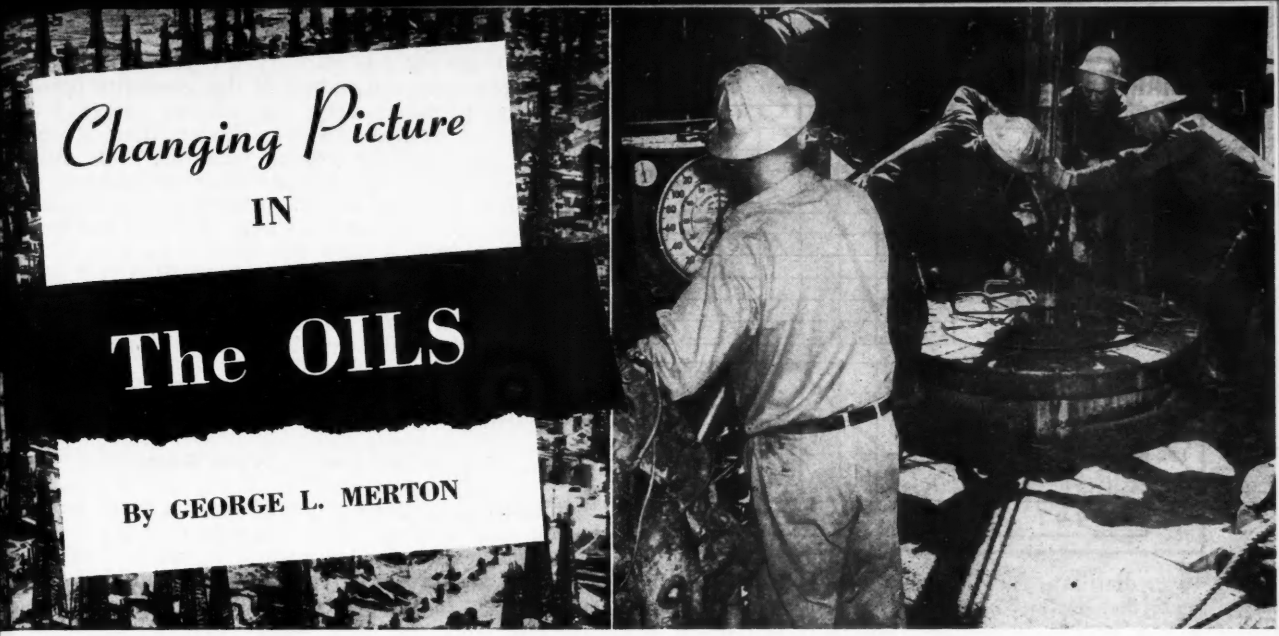
	Fixed Charges			Net Income		
	$ Million					
	1937	1945	1947	1937	1945	1947
American Air Lines	$.2	......	$.7	def$.1	$4.3	def$2.9
Atlantic Refining	.3	1.1	.9	9.9	1.5	15.9
Beneficial Industrial Loan	......	.9	1.6	7.1	4.6	6.4
Bethlehem Steel	6.9	5.8	3.9	31.8	34.9	51.1
Budd Co.	......	.6	1.1	......	2.4	4.1
Caterpillar Tractor	......	......	.4 a	10.5	6.5	9.9
City Ice & Fuel	.2	.4	.5	3.3	2.8	6.1
Crucible Steel	.4	.4	1.1	4.0	4.8	2.1
Deere & Co.	.2	.4	.8	14.9	8.6	13.9
Dow Chemical	......	.1	1.6	3.9	6.7	21.1
Fairbanks Morse	.2	......	.3	2.1	2.6	4.2
Firestone Tire & Rubber	......	2.2	2.5	9.2	16.4	26.9
General Electric	.2	.5	5.1	63.5	56.5	88.3
Gulf Oil	2.9	.9	2.7	31.8	43.2	95.5
National Cash Register	.2	.1	.7	3.9	2.1	11.3
Radio Corp. of America	.3	.5	.5	9.0	11.3	18.7
Radio-Keith-Orpheum	2.1	.8	.9	1.8	6.0	5.1
Remington Rand	.8	.7	1.5	4.5	6.5	15.1
Schenley Distillers	.6	.9	2.4	7.3	23.9	26.8
Shell Union Oil	2.3	2.7	3.2	20.6	28.7	59.8
Socony-Vacuum	4.4	3.6	2.8	56.8	42.3	97.7
Standard Oil Co. of N. J.	2.6	7.1	6.7	76.0	154.1	268.6
Swift & Co.	1.9	.7	1.2	8.8	12.3	22.3
Transcontinental & Western	......	.04	1.5	def1.0	1.8	def8.1
Union Carbide & Carbon	.8	.6	.4	42.8	37.9	75.6
Twentieth Century-Fox	.05	.5	.8	8.6	12.7	14.0
U. S. Rubber	2.6	.6	2.1	8.6	13.0	21.7
Universal Pictures	.3	.3	.5	def1.1	3.9	3.2
Westinghouse Electric	......	1.2	2.3	20.1	26.7	48.8
Walker (H.)-Gooderham	.5	.4	.8	6.5	9.4	18.8

a—Interest income applied against interest payments.

Need for Scrutiny

In conclusion we would like to emphasize that we are not attempting to paint a gloomy picture, but rather to encourage close scrutiny by investors of fixed charges, sinking funds and dividend restrictions, factors that are frequently overlooked in appaising common stocks. The depression history of the 1930s is replete with examples where these factors assumed considerable, and often painful, significance to companies and stockholders.

Changing Picture IN The OILS

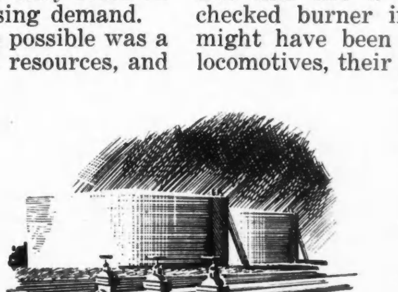


By GEORGE L. MERTON

Unprecedented earnings gains by leading oil concerns during the first half year point to full year results verging upon the spectacular. As 1948 will mark the second year in a row of highly successful operations, the basic factors accounting for the industry's rapid headway invite unusually close scrutiny. Investors and speculators unable to appraise the complexities of the industry and its medium term potentials evidently now view the outlook with considerable caution, to judge from current share quotations, merely because in the face of tremendous odds, the industry has finally managed to achieve demand-supply balance.

The oil industry has been doing an excellent job in meeting the sharp increase in demand for all classes of petroleum products and in doing so, it has been able to capitalize on a unique opportunity. Faced with an increasing and insatiable demand for energy to run the factories, fuel our airplanes and millions of automobiles, trucks, buses, locomotives and tractors, as well as to light and heat countless homes, oil managements all along the line have displayed astonishing efficiency in stepping up production within a relatively short space of time. Even peak efforts that largely accounted for victory in war have now been exceeded on a wide front. Where a year ago there was a strong prospect that fuel oil and gasoline would have to be rationed in 1948, supplies now seem adequate to allay fears on this score, despite a steadily increasing demand.

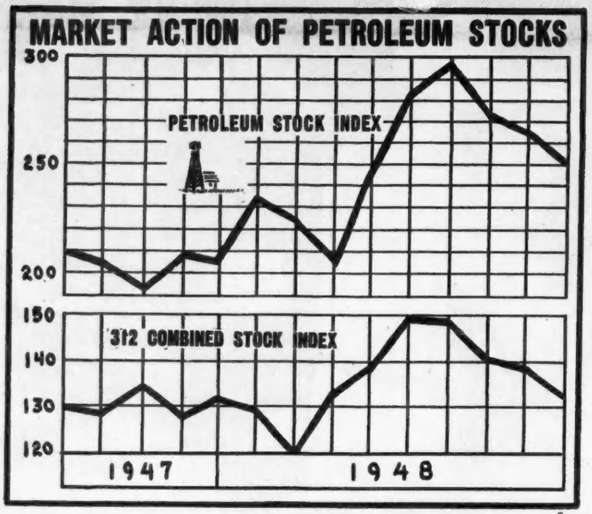
What made this industrial miracle possible was a wealth of technological skill, natural resources, and capital investment largely of internal origin. By applying these three assets to consummation of a colossal expansion and modernization program, the oil industry is now well on its way towards the desired goal. In relation to 1947 sales, the major oil concerns spent more than twice as much for capital investments as the automobile or rubber industries, and about 30% more than steel companies. During 1948-49, the program will involve about $5 billion in all, comparable to total Federal revenues just prior to the war.



During the current year alone, the industry expects to drill about 37,000 new oil or gas wells, although many will prove dry and their cost may average $50,000 each. Provided steel supplies permit, 8,000 miles of new pipeline will be added to a network already larger in mileage than the total of all American railways, for transportation problems create the main bottlenecks of the industry at present. Then by enlarging, constructing or modernizing refineries, the oil industry hopes to increase capacity this year by 150,000 barrels daily, with more to come in 1949.

To justify the huge outlays now being made, it is obvious that prospects of permanently very high demand must be the determinant factor. Surprising though the upsurge in consumption of petroleum products has been in postwar, evidence of a forthcoming decline in near term years is decidedly lacking, even if a moderate business recession were to occur. Fact is that there are 3 million more automobiles and trucks in use now than 1941, not to mention 50,000 more buses and at least a million more tractors. In constrast to estimates that oil burning heaters seven years ago totaled 2.4 million, in midyear 1948 the number had swollen to 3.7 million and had not a threatened shortage of fuel oil checked burner installations, the 4 million mark might have been reached. As for diesel powered locomotives, their use has increased so fast that the railroads consumed more than 20 million barrels of diesel fuel in 1947 compared with 2.7 million barrels in 1941.

And not to be overlooked is the broad expansion in demand for the thousands of oil derivatives that petroleum chemistry is now supplying for industries of nearly every description, from rubber to plastics, lubricants to facial lotions. Last year the demand for motor fuel rose 19%, kerosene



46%, distillate fuel (home furnace) 73%, residual fuel (diesel) 35% and all other petroleum products 44%. Furthermore, these uptrends are being extended in the current year. On a per capita basis, domestic demand now equals 622 gallons of oil products annually compared with 464 gallons as recently as 1941. Under such conditions it is difficult to foresee anything but well sustained growth for the industry, provided available stocks of crude oil from domestic or foreign sources meet requirements.

Despite all the hue and cry for years past over the approaching exhaustion of our domestic petroleum supply, the industry has always managed to increase its proven reserves faster than it has pumped oil from the ground, enabling it to fully meet a consistent rise in demand. Since the end of World War I, about 20 billion barrels of petroleum have been produced, and the annual output has been stepped up from a mere 356 million barrels to an estimated record 2 billion barrels in 1948. Yet as a result of aggressive exploration there is still enough in fairly clear sight to last for at least another generation. What is more, the giant oil concerns are investing hundreds of millions of dollars to tap the lush resources of the Middle East, Latin America and Canada.

Persian Gulf Area as World Supplier

It looks as if the Persian Gulf area alone would become the chief oil producing region of the world, and American concerns control about half of the potential resources. Already about 1.1 million barrels per day is flowing from wells in Saudi Arabia, Kuwait, Iran and Iraq, about 40% going to the Far East and the balance by tanker to Europe and the United States. All of which makes for assurance that our domestic oil concerns are in a strong position to import adequate quantities of crude if the supply here at home becomes unduly pinched. According to the Bureau of Mines, imports of crude petroleum in 1948 will total about 125 million barrels, a rate 28% greater (*Please turn to page* 44)

Statistical Data for Leading Oil Companies

	Est. Total Proven★ Reserves (mill. bbls.)	—Net Per Share— 1947	6 mos. 1948	Div. 1947	Div. Yield	Recent Price	Price-Earnings Ratio	Invest-ment Rating	COMMENTS
Amerada Petroleum	350	$9.46	$7.87	$3.00	3.1%	$96	10.2	BI	Strongly situated producer of crude. Sharp uptrend in volume and earnings has lifted quarterly dividend to 75 cents. Extras easily possible.
Atlantic Refining	500	5.32	5.76	1.50	3.8	39	7.3	C+I	Integrated unit well entrenched in markets. Higher crude production supports wide margins. Improved dividend rate or payment of extras probable.
Barnsdall Oil	200	4.10	3.03	1.55	4.1	38	9.3	BI	Producer of crude oil and natural gas. Moderately larger output plus firm prices support expectations of stable dividends bolstered by extras.
Cities Service	350	10.93	5.40c	1.50	3.0	50	4.6	BI	Bulk of income now comes from oil business. Large expenditures in crude division proving profitable. Earnings warrant more liberal dividends.
Continental Oil	500	6.61	6.00	2.50	4.4	57	8.6	BI	Increased output of crude stimulating volume and earnings. Recent quarterly distribution of 75 cents per share likely to hold.
Gulf Oil	6,695	10.53	6.80	2.75	4.1	67	6.4	BI	Ranks among largest producers and refiners, with heavy interest in foreign fields. Enjoying sharp rise in earnings. Dividend widely covered.
Humble Oil	2,500	6.90	......	3.00	3.9	77	11.2	BI	Standard Oil (N. J.) subsidiary holding immense oil reserves. Large refining and transportation facilities enhance earnings potentials. Dividend entirely secure.
Lion Oil	40	6.83x	4.98x	1.75x	4.3	41	6.0	BI	Smaller but well integrated unit with activities in chemical division swelling profits. Increased 75 cents quarterly dividend amply earned.
Mid-Continent Petroleum	125	9.49	7.39	3.25	6.4	51	5.4	BI	Production of crude supplies about half of refinery needs. Earnings markedly upward. A year-end extra would be logical.
Ohio Oil	550	4.44	3.79	1.75	5.3	33	7.5	BI	Early completion of refinery improvements and successful development of crude reserves favor well sustained earnings uptrend. Continued payment of extras indicated.

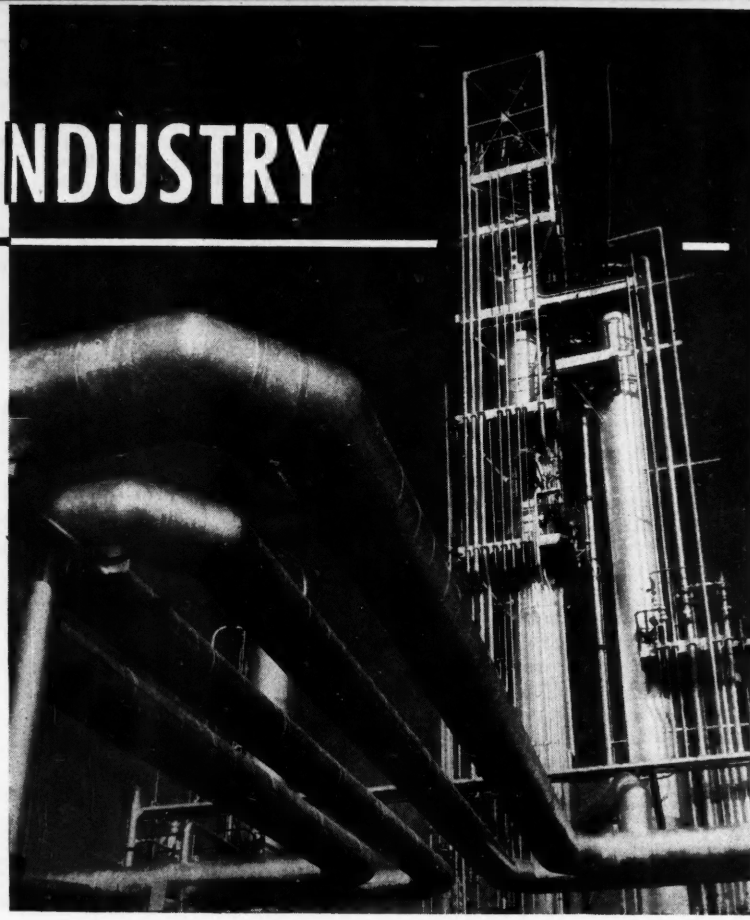
(Continued on page 27)

Statistical Data for Leading Oil Companies (Cont.)

	Est. Total Proven★ Reserves (mill. bbls.)	—Net Per Share— 1947	6 mos. 1948	Div. 1947	Div. Yield	Recent Price	Price-Earnings Ratio	Investment Rating	COMMENTS
Pan Amer. Pet. & Trans.	....	$2.97	$1.50	$ .75	4.7%	$16	5.4	C+I	Strong demand for company's gasoline and asphalt output at firm prices assures stable earnings. Increased dividends possible.
Pantepec Oil of Venezuela	....	1.10	.48b	.64	5.8	11	10.0	CI	Reorganized concerns with important Venezuelan holdings. Semi-annual dividend unlikely to change. Longer term prospects add some speculative attraction.
Phillips Petroleum	750	6.76	6.03	2.50	4.0	63	9.3	BI	Capacity operations in every division pushing earnings to new heights. Company is largest producer of natural gasoline. Conservation dividend may be increased.
Plymouth Oil	....	4.01	3.14	1.00a	2.1	47	11.7	BI	New discoveries enhancing earnings potentials. Sharply rising profits in current year assure dividend payments with some prospect of betterment.
Pure Oil	450	4.77	4.43	1.50	4.5	33	7.0	BI	Medium size integrated oil concern with strong reserves. Produces bulk of refinery needs. Enlarged earnings suggest probable year-end extra.
Quaker State Oil Ref.	....	2.98	1.96	1.75	7.9	22	7.4	BI	Well established producer and refiner of Pennsylvania crude oil, noted for lubricants. Increased dividend of 40 cents quarterly may be supplemented by extra.
Richfield Oil	220	2.96	2.12	1.50	4.5	33	11.2	C+I	Important Pacific Coast refiner and distributor. Crude oil position improved by recent important discovery. Last two quarterly dividends at 50 cents rate.
Seaboard Oil of Delaware	150	4.83	2.92	1.00	2.3	43	8.9	BI	Aggressive drilling has expanded crude output substantially. Earnings in significant uptrend. 40 cents quarterly dividends may be liberalized.
Shell Union Oil	900	4.44	4.15	2.25	6.1	37	8.3	BI	A leading producer of crude and nationwide distributor. Large scale expansion under way. Marked uptrend in earnings should improve dividend payments.
Sinclair Oil	650	4.07	3.70	1.00	4.2	24	5.9	B—I	Active in all divisions of the oil industry. Completion of new pipelines likely to increase earnings. Dividend rate has been raised to 50 cents quarterly. Year-end extra possible.
Skelly Oil	225	21.49	18.75	2.50	2.2	112	5.2	BI	Integratel unit now reaping reward for large scale exploration activities. Impressive earnings gain should be reflected in higher dividends.
Socony-Vacuum	2,749	3.13	2.28	1.00	5.5	18	5.8	BI	Well integrated unit with strong trade position. Leading supplier of lubricants. Output potentials swelled by large crude reserves abroad. A year-end extra dividend rather likely.
South Penn Oil	....	3.86	2.69	3.50	8.5	41	10.6	BI	Largest producer of Pennsylvania crude and important producer of lubricants. Improved earnings this year brought distribution of special extra of $1.20 in June.
Standard Oil of Calif.	3,900	8.25	5.97	3.20	5.2	62	7.5	BI	A leading producer and refiner, with domestic reserves bolstered by large concessions in Venezuela and Middle East. Sharply higher earnings might warrant payment of near term extra dividend.
Standard Oil of Indiana	1,000	6.21	4.33	2.00	4.6	43	6.9	BI	Dominant complete unit in Midwest. Rise in earnings should bring further dividend liberality in the form of cash or stock dividends.
Standard Oil of N. J.	9,100	9.83	7.50	4.00	5.3	75	7.6	BI	Largest domestic oil concern with sizable interests in other countries. A pioneer in petroleum chemistry. Company's year-end dividend should be at least $3 per share.
Sun Oil	600	5.28x	5.01x	.98x	1.5	68	12.8	BI	Modernization of facilities and broadened distribution of products favors outlook for further earnings gains. Company usually pays a year-end extra.
Texas Company	4,050	7.90	5.07	3.00	5.5	55	7.0	BI	Large domestic reserves and vast holdings in other countries enhance growth potentials. New refineries and pipelines a favorable factor. Ample coverage of dividends suggest increased rate or extras
Texas Gulf Producing	....	2.30	2.18	.70	3.7	19	8.2	C+I	Acquisition of new oil acreage and successful drilling have improved outlook. Uptrend in earnings may lead to higher dividends.
Tide Water Associated Oil	471	4.57	3.09	1.05	3.9	27	5.9	BI	Refinery operations significantly stepped up this year. The increased 40 cents quarterly dividend is secure and payment of an extra is possible.
Union Oil of Calif.	410	3.85	3.42	1.10	3.4	32	8.3	BI	Second largest unit on Pacific Coast, now operating close to capacity. Recently increased quarterly dividend of 62½ cents should easily hold.

★—Does not include recent discoveries of undisclosed amounts.
a—Plus 2% in stock.
b—Period Jan. 1-April 2, 1948.
c—3 mos.
x—Adjusted.

CHEMICAL INDUSTRY



—WITH A BREAKDOWN OF COMPANY BALANCE SHEETS AND COMPARATIVE INCOME STATEMENTS

By J. C. CLIFFORD

Hats off to the chemical industry and its courageous leaders for an enviable record in the critical post-war transition. No one can say this group of manufacturers balked at the challenge to expand. Despite widespread fears of a recession that might end the need for additional production, the chemical industry showed its confidence in the future by appropriating hundreds of millions of dollars for new plants. Risks involved in rising construction costs presented no barrier. Results of such a forthright policy now are coming to light in record sales, in improving profit margins and in development of an array of new products for the service of mankind.

Progress this year has reaffirmed the industry's reputation for vigorous growth. Notwithstanding slackening in demand for some products and loss of output due to minor labor disturbances, production is expected to register satisfactory gains over last year. In terms of the 1935-39 average, it seems likely that 1948 volume may approach 265 per cent of the pre-war standard. This would compare with 250 per cent last year. The extend to which the industry has enlarged production in the last quarter of a century is not generally appreciated. Much of the progress may be attributed to development of highly desirable new products that have meant so much to virtually every branch of industry.

Judged by the experience of leading chemical concerns, as much as half of today's output may be accounted for by products that have come out of research laboratories since 1938; in other words, growth is not dependent on other industries so much as it is on development of additional markets. The pattern is so well defined that authorities expect virtually half of sales ten years hence to be derived from products still in the laboratory stage or as yet limited to pilot plant production. This characteristic of the chemical industry, not widely appreciated in investment circles, is one of its most reassuring features.

Although it would be an exaggeration to say that the chemical industry is immune to depressing business influences, it is interesting to observe that recoveries from intermittent declines have been prompt and vigorous. The 1929 peak, for example, was regained as early as 1935 and never since that time has production reached as low a level. The pronounced uptrend over the last quarter of a century may be seen from the following tabulation of Federal Reserve Board index figures indicating the industry's production in terms of the 1935-39 average as 100:

1947	250	1939	112	1931	78
1946	236	1938	96	1930	87
1945	284	1937	112	1929	89
1944	325	1936	99	1928	78
1943	384	1935	89	1927	73
1942	278	1934	83	1926	70
1941	176	1933	76	1925	63
1940	130	1932	68	1924	56

Rapid Growth

As may be supposed, the chemical industry has experienced more rapid growth than general manufacturing. According to the Census of Manufacturers, products of chemical and related lines represented 2.4 per cent of the value of all manufactures in 1939, whereas in 1925 the ratio was 1.7 per cent. In 1933, when effects of the business depression were present, the chemical and related lines reached almost 2.5 per cent of the total, suggesting again that the industry had better than average growth characteristics and was less vulnerable to cyclical

factors. The 1929 census showed, for example, that the ratio to total manufactures was only 1.9 per cent, and throughout the depression years the chemical industry's proportion of production never fell as low as in 1929.

Constructive Price Policies

Comparison of profits of typical chemical producers reveals another significant characteristic that probably explains to some extent the industry's impressive progress. Most companies apparently have preferred to pass along to customers savings obtained in improved operating results, for earnings have not registered the proportionate increase evidenced by sales. The tendency then to reduce selling prices as conditions warrant, thereby broadening markets, has held down profits, but has stimulated public acceptance of new products.

Before considering experiences of individual companies in promoting new chemicals and special products, it may be well to see how beneficial for industry as a whole has been the policy of stimulating consumption of various synthetics. Progress in plastics is an outstanding example. Penicillin and other so-called wonder drugs also have accounted for tremendous expansion of the chemical industry's facilities while at the same time contributing to the medical world's resources for conquering disease.

As fabricators of plastics learn to make the best use of materials available, the industry will make greater progress. Difficulties have been encountered in the last year or two through inexperience, many fabricators having turned to plastics for items that should have been made of other materials. Dissatisfaction among consumers had an unfavorable reaction on all plastic goods. The recent National Plastics Exposition in New York was held to introduce new types of plastics and to help educate fabricators in selecting the right type of material for consumer goods products.

Consumption of plastics has been retarded to some extent this year by reason of "growing pains" encountered last year, but this setback has not deterred major producers from undertaking major expansion programs aimed at improving raw materials and lowering costs. Dow Chemical, which is well advanced in probably the most extensive program in the industry, has greatly enlarged facilities for ingredients used in plastics. Union Carbide & Carbon has virtually doubled its plastics output, while other concerns such as duPont, Celanese, American Cyanamid, Monsanto and Durez have undertaken large projects. As a result, the industry probably will be table to produce upward of one and a half billion pounds of plastics next year, an increase of some 50 to 60 per cent over 1947 volume.

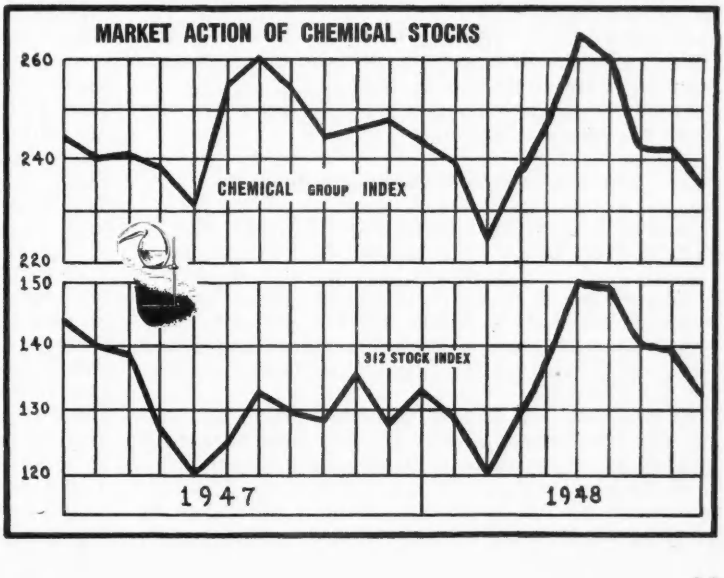
Perfection of plastics has enabled producers to extend the conversion of raw materials to a level nearer the end-product and thereby gain a wider profit margin. As an example, Dow Chemical probably is the country's largest producer of chlorine, a relatively low-cost heavy chemical, which formerly had limited use. Now chlorine is used as a principal ingredient in making various types of cheap plastics, so that Dow consumes virtually all of its chlorine as a raw material for more profitable lines. As an illustration, it is estimated that one important product, polystyrene, regarded as the cheapest plastic material currently selling at 25 cents a pound, would yield as much as $50 million annually if the company's entire production could be channeled to this product. This is a trend being followed by most other progressive concerns. Matnieson Chemical, for example, has strengthened its competitive position in the last few years by carrying forward manufacturing processes to higher levels in consumption where profit margins are wider.

One of the advantages of the chemical industry in recent years of rapidly rising costs has been the relatively low relation of labor to selling prices. In a way, this favorable position has encouraged addition of new facilities in spite of high construction costs, for risks in enlarged payrolls were minimized. As a matter of fact, the industry has counted on gaining $1 in additional sales from each dollar invested in new plants prior to the war, but it is doubtful whether this high recovery is possible under current conditions.

Relatively Low Wage Ratios

Mechanization of operations is steadily being intensified to hold down unit costs, but the relatively sharp rise in hourly wage rates in the last two years has raised the ratio of labor to selling prices. Whereas in 1939, wages averaged 11.7 per cent of value of chemical products, according to the Bureau of the Census, the ratio undoubtedly is considerably higher now. It is estimated that wages now constitute 30 to 35 per cent of sales of typical chemical producers. Even so, this is well under the average for general industry. Moreover, greater efficiency and larger volume have enabled the industry to keep price advances relatively modest. In the main, increases probably have averaged no more than 15 to 20 per cent over OPA price levels or even those prevailing at the beginning of the war, whereas wages have soared 75 per cent or more.

Turning now to specific chemical products and individual companies, it must be recognized that



Comprehensive Statistics Analyzing Position of Individual Chemical Companies

(Figures are in million dollares, except where otherwise stated)

	Atlas Powder	Columbian Carbon	Davison Chemical	Dow Chemical	Du Pont	Hercules Powder	Monsanto Chemical	United Carbon
CAPITALIZATION:								
Long Term Debt, stated value	$3.0	——	$4.6	$67.2	——	——	$30.5	——
Preferred Stocks, stated value	$6.8	——	——	$70.4	$268.9	$9.6	$33.2	——
Common Shares Outstanding (000 omitted)	264	1,612	514	4,994	11,158	2,711	4,272	795
Total Capitalization	$15.6	$21.8	$.5	$212.5	$492.0	$26.5	$85.0	$11.9
INCOME ACCOUNT: 6 months 1948			a	b				
Net Sales	$21.0	$20.9	$33.5	$170.7	$461.3	$66.4	$78.7	——
Taxes	——	$1.6	$1.4	$12.4	$40.7	$3.7	——	$1.1
Net Income	$.6	$3.5	$2.6	$21.1	$62.6	$5.7	$7.9	$1.6
Operating Margin	——	——	16.8%	28.8%	$25.4%	19.0%	——	——
Net Profit Margin	2.8%	16.7%	7.7%	12.4%	13.6%	8.6%	10.0%	——
Earned Per Common Share	$1.75	$2.18	$5.07	$3.72	$5.11	$2.09	$1.73	$1.97
Current Price of Common	$51	$32	$23	$46	$172	$47	$51	$29
1947 Dividends (including extras)	$2.50	$2.00	$1.00	$.97c	$8.00	$2.00	$2.00	$2.00c
Dividend Yield	4.9%	6.2%	4.3%	2.1%	4.6%	4.2%	3.97%	6.9%
BALANCE SHEET	June 30	June 30	June 30	May 31	June 30	June 30	June 30	June 30
Cash Assets	$4.1	$6.7	$4.9	$22.8	$179.5	$21.6	$23.1	$8.4
Inventories, Net	$7.4	$5.4	$5.1	$36.8	$145.5	$17.9	$29.2	$1.8
Receivables, Net	$5.1	$3.6	$1.9	$23.6	$67.9	$9.7	$17.7	$3.2
Current Assets	$16.6	$15.8	$12.4	$83.2	$399.5	$49.3	$70.0	$13.4
Current Liabilities	$3.4	$5.0	$2.1	$29.1	$65.6	$15.6	$24.0	$3.8
Net Current Assets	$13.2	$10.8	$10.3	$54.1	$333.9	$33.7	$46.0	$9.6
Fixed Assets, Net	$11.8	$27.7	$12.4	$176.8	$393.1	$34.9	$95.9	$13.5
Total Assets	$33.1	$47.5	$25.2	$271.5	$1,503.1	$85.4	$225.0	$28.8
Book Value Per Share	$59.84	$24.85	$35.93	$20.73	$65.73	$23.09	$20.35	$28.55
Net Current Asset Value Per Share	$49.50	$7.10	$20.10	$10.80	$30.50	$12.40	$10.80	$12.10
Cash Asset Value Per Share	$15.50	$4.15	$9.53	$4.60	$16.10	$8.00	$5.40	$10.60
Current Ratio	4.9	3.1	5.9	2.9	6.1	3.1	2.9	3.5
Inventories, % of Sales (6 months)	35.3%	25.7%	15.2%	21.6%	31.5%	27.0%	37.2%	——
Inventories, % of Current Assets	44.5%	34.2%	41.0%	44.3%	36.4%	36.4%	41.7%	13.4%

a—Fiscal year ended June 30, 1948.
b—Fiscal year ended May 31, 1948.
c—Adjusted.

progress this year has not been uniform. Some companies, specializing in a few lines which once more are in supply, are experiencing a slackening in sales with a corresponding shrinkage in profit margins. Competition is apt to become keener in alkalies in coming months now that a balance between demand and supply appears to be in sight. In formaldehydes and other types of raw materials for plastics, there appears to be evidence of a return to normal competitive conditions. Shortages are not much of a problem any more.

Demand Trends for Chemical Products

Among lines in good demand are pharmaceuticals, industrial chemicals, sulphuric acids, fertilizer components, other agricultural chemicals, dyestuffs, pigments, etc. Volume in industrial gases, carbon black and alcohols is satisfactory, comparing favorably with last year, while naval stores and a few other less important lines have experienced a slackening in demand.

Comparison of several interim statements will serve to illustrate mixed trends this year. American Cyanamid, with volume concentrated in pharmaceuticals and biologicals, industrial chemicals, dyestuffs and materials for plastics, reported a gain of about 10 per cent in sales for the first six months, resulting in improvement in profits of some 23 per cent. Net profit amounted to $1.85 a share, against $1.58 in the corresponding period last year. With additional production coming into operation in the final half, further gains appear a reasonable prospect. Columbian Carbon lifted profits in the first six months to $2.18 a share from $2 last year. Heyden Chemical registered significant progress in raising net profit for the first six months to $1.58 a share from $1.03 a year ago. Mathieson Chemical, reflecting the benefit of aggressive sales effort in new products, showed net profit of $2.16 a share, against $1.72 a year ago. Union Carbide & Carbon also did well in boosting profits to $1.63 a share from $1.28 in the last half.

Dow Chemical's sharp improvement for the fiscal year ended May 31, reflecting increased facilities in a 31 per cent rise in sales, was outstanding. Net profit rose to $3.72 a share from $2.31 in the preceding year. American Agricultural earnings held steady at $6.87 a share and Davison Chemical's rose to $5.07 from $3.51 a share for the fiscal year ended June 30. International Minerals & Chemical experienced comparable improvement with net profit of $5.85 a share, compared with $4.35 in 1947, most of the progress being accomplished in the last half of the fiscal year, reflecting completion of new production facilities in Florida and on the Pacific Coast.

The two principal sulphur companies continued to experience earnings progress as a result of excellent demand for their output. Texas Gulf Sulphur's profits were enhanced by a larger volume of exports than usual. Net for the first half came to $3.12 a share, against $2.75 last year. Freeport Sulphur lifted earnings to $2.31 from $1.76 a share in the first six months of 1947.

Atlas Powder and Hercules Powder, principal producers and industrial explosives, raw materials for plastics, naval stores, industrial finishes, etc., did not do as well in the first half this year as in 1947. The former's earnings, adversely affected by keener competition and narrower margins, dropped to $1.75 a share from $3.42 in the first six months. Costs are believed to be under better control now, and the second half may show a more favorable comparison. Hercules had a slight decline in sales in the first six months and the absence of inventory profits in naval stores showed up in reduced profits, net income coming to $2.09 a share against $3.69 in the first six months last year.

Commercial Solvents, U. S. Industrial Chemical, Victor Chemical Works, Newport Industries, Monsanto Chemical and Catalin Corp. had less satisfactory results this year than last. Earnings of duPont were a trifle lower for the period. Pennsylvania Salt's profits for the fiscal year ended June dropped to $2.47 from $3.57 a year earlier.

Indices of Relative Earnings Growth of Leading Chemical Companies

(1936-39 = 100)

	Allied Chem.	Amer. Cyana.	Dow	duPont	Monsanto	Union Carb.
1948E	150	227	425	150	275	250
1947	147	174	317	150	295	206
1946	127	171	197	143	194	157
1945	90	120	94	96	95	105
1944	87	130	167	100	90	96
1943	90	127	175	85	97	91
1942	98	115	157	77	102	88
1941	101	144	156	115	135	115
1940	100	145	140	111	116	116
1939	101	122	144	117	110	100
1938	62	55*	84	57	63	72

E—Estimates for 1948, except for Dow.

What Interim Statements Show

Additional comparative statistics are presented in the accompanying tabulations, showing capitalization and relevant balance sheet figures for leading concerns in the industry. In some instances balance sheet data are unavailable for interim periods, hence no comparative statistical exhibit is possible for all.

Interim statements for the current year point up what has been true over a much longer term, namely, the greater earnings progress of those concerns which have stressed wider margin chemicals or lines more closely approaching end-products. This factor may be better appreciated in relating share earnings to an index number over a period of years. In this manner it may be seen that producers of cheap bulk items have not fared so well as those companies which have turned to newly developed pharmaceuticals, for example. The appended tabulation shows a few comparisons with earnings per share represented by the 1936-39 average as 100. Viewed in this manner, earnings of representative companies have shown varying rates of growth. Dow Chemical, Monsanto, Union Carbide and American Cyanamid have outstepped their larger and more prosaic rivals.

Growth tendencies seem likely to be accelerated in coming years as markets for newly developed products expand. Hence investors will need to differentiate between companies engaged in bringing out new lines and those content to concentrate on existing production.

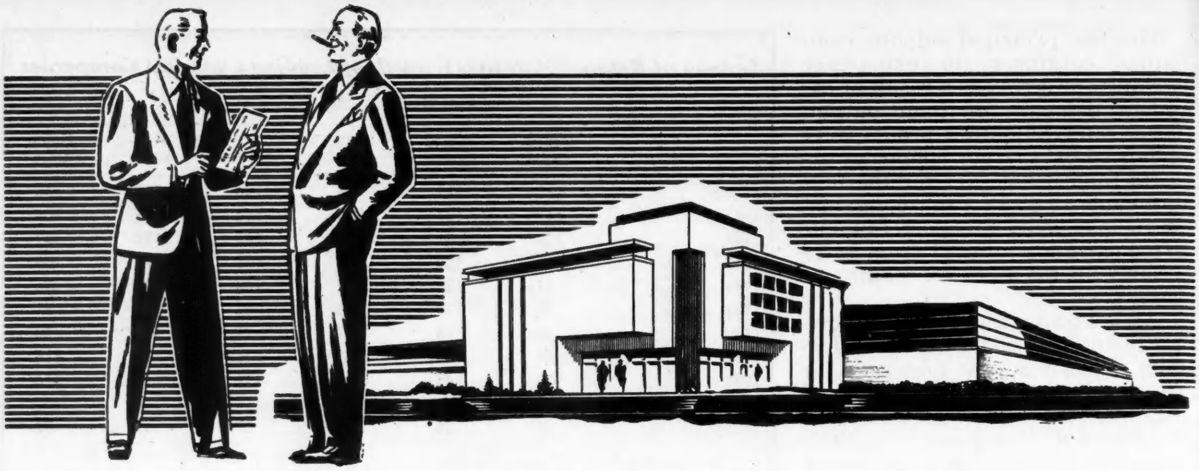
No Serious Effect of F.O.B. Pricing

The industry appears unlikely to be seriously affected by the recent trend toward abandonment of "basing point" sales policies. Some producers of heavy chemicals have (*Please turn to page* 46)

Financial Data on other Chemical Companies

	First Half 1948			1947							
	($ million) Net Sales	Net Per Share	Net Profit Margin	($ million) Net Sales	Net Per Share	Net Profit Margin	Div. 1947	Div. Yield‡	Price-Earnings Ratio†	Recent Price	Range 1948
Air Reduction	$45.7	$1.11	6.7%	$85.5	$2.08	6.7%	$1.00	4.8%	10.0	$21	27⅞-21½
Allied Chemical & Dye	184.2	......	......	365.9	13.69	8.3	9.00	4.9	13.4	183	198 -171
American Cyanamid	114.2	1.85	5.0	214.6	2.96	4.3	1.00	2.7	12.5	37	41¼-33¼
Commercial Solvents	23.0	1.22	13.9	54.9	3.44	16.5	1.60	7.6	6.1	21	29⅜-20
International Minerals & Chem.	......	......	......	50.1 b	5.85 b	10.0 b	1.50	5.6	4.6	27	38½-23¾
Mathieson Chemical	15.4	2.16	12.2	24.6	3.34	11.9	1.62	4.5	10.8	36	39⅞-27¼
Pennsylvania Salt Mfg.	16.5	1.19	6.0	29.2	3.57	9.2	1.80	4.7	10.6	38	48 -38½
Union Carbide & Carbon	303.1	1.63	15.6	521.8	2.66 a	14.5	1.25 a	3.1	15.0	40	43 -39
U. S. Industrial Chem.	12.7 e	.98 e	3.8 e	73.3 c	5.30 c	3.6 c	2.25	6.8	6.2	33	42¾-32⅛
Victor Chemical	12.6	1.17	8.0	21.3	2.47	9.6	1.75	4.6	15.4	38	48⅛-37½

‡—Based on 1947 dividends.
†—Based on 1947 earnings.
a—Adjusted.
b—Fiscal year ending June 30, 1948.
c—Fiscal year ending March 31, 1948.
e—June quarter.



Candidates for Year-End Extras

By H. S. COFFIN

All indications point to another flood of generous year-end dividends by numerous corporations. Earnings for the most part have held at high levels while regular disbursements to stockholders frequently followed a conservative course. Hence a good many managements rounding another record year may feel encouraged to liberalize their dividend policies and come through with extra or special payments.

So many factors, however, influence directorates in announcing dividends at the end of the year, that past performance or an improvement in interim earnings are unsafe guides sometimes in appraising what may be done in the final quarter. With more and more lines of business having seemingly passed their postwar peaks, caution over possible adverse trends that might develop in 1949 could stimulate conservatism all along the line.

According to the Department of Commerce, cash dividends paid by American corporations in the July quarter alone soared to a record peak of about $1.3 billion, up 9% compared with the corresponding quarter of 1947. As for the first six months, the New York Stock Exchange reports that total cash dividends disbursed by companies listed on the Big Board increased 14.4% compared with 1947, though distributions were far more uneven than in the period a year ago. We cite these figures because behind them are greatly varying trends, according to the diverse experience of various industries and their components. 45% of the listed concerns paid larger cash dividends through increased quarterly payments or extras, but dividends were reduced by 82 firms and deferred by 24 others. This shows the need for careful study in choosing candidates for year-end extras in the current year.

Concentrating on the brighter side of the picture, there are certain industries and a good many concerns that still enjoy strong prospects of well sustained prosperity not alone for the balance of 1948 but for several years to come, unless world conditions disrupt all estimates. Abnormally large expansion programs, heavy inventories and the creation of sizable reserves have led numerous managements to retain a very large share of profits in the business, thus restricting dividends to modest limits relative to net earnings. Since industry is expected to spend around $9 billion during the current half year on modernization and expansion, quite clearly working capital needs will still be a widespread potent factor in determining year-end dividend liberality.

On the other hand, many concerns have now virtually completed their postwar programs and established reserves probably ample to meet any future contingencies. Other firms now making record profits but still desirous of building up working capital, will find their status and outlook so encouraging when full year results have been determined, that without much question they will feel justified in making special disbursements. We have appended a table listing numerous concerns which for one reason or another we deem likely to supplement regular dividend payments with additional distributions in the final quarter. It would be possible, of course, to greatly expand their number. To avoid possible disappointments, however, we remind our readers that our conclusions, though based upon extensive study, may not prove correct in all instances. Directors will formulate their dividend policies on basis of considerations frequently known only to themselves.

Oil Companies Appear Good Prospects

The spectacular uptrend in earnings of the oil industry in the current year, likely to prove about 50% above 1947, focuses hopes of increasing dividend liberality on many units in this division. Elsewhere in this issue we have gone to some length in discussing the pros and cons of this subject for the oils, and refer our readers to this article for detailed information. So many of the petroleum concerns have rapidly and substantially expanded their earn-

ings that almost any of them could afford greater liberality to their shareholders.

We have, however, picked five that seem particularly well situated to declare extras or specials in the final quarter, as we view the picture. These are Gulf Oil, Pure Oil, Sinclair, Sun Oil and Tidewater Associated Oil. While four of these concerns have already paid more in dividends thus far in 1948 than in all of 1947, and a fifth has done nearly likewise, the improvement has been very moderate compared with their sharp earnings gains. Gulf Oil declared an extra of $1.25 late in 1947, to bring total payments for the year to $3, and since then has paid 75 cents quarterly. Because net earnings of this concern, and indeed of all the others, were at least fourfold dividend distributions in the first half of 1948, there is obvious room for improved payments. The tremendous sums needed for capital outlays by the oil industry suggest that year-end extras and/or stock dividends rather than rate increases will be the rule, if shareholders are to receive more favorable treatment.

Candidates in Automotive Industry

To judge from all indications 1948 will prove a banner year for the automotive parts industry. Once managements in this field know for sure their operating results for the full year and formulate plans for 1949, some beyond doubt will consider favorably distributing a larger share of profits to their stockholders. Take Eaton Manufacturing, for example. This concern is utilizing expanded facilities to meet a steady and impressive demand for its products. Sales in the first half year rose 37% compared with the same 1947 period, while net earnings advanced 61%. Last year's total dividends amounted to $5 per share, including a year-end extra of $2. Thus far in 1948, $3.25 per share has been distributed though full year net may exceed $11 per share. Thus chances for a liberal year-end extra appear rather bright.

Another encouraging situation among the auto parts makers is Thompson Products, a specialist in replacement items and also well diversified through production of aircraft parts. Though 1947 brought net earnings of this manufacturer to a high level of $9.57, in the first six months of 1948 they expanded to an annual rate of $10.80. At the end of 1947, Thompson Products declared an extra of $1 per share and later paid quarterly dividends of 50 cents versus 25 cents previously. It should occasion little surprise if the stockholders received a special windfall in the final quarter, for earnings would amply permit it.

Favorable market and operating conditions have combined to push net earnings of Youngstown Sheet and Tube to record breaking heights both in 1947 and 1948. Last year the company reported net earnings equal to $13.31 per share, with a further uptrend indicated for full 1948. In both years, however, a regular quarterly dividend rate of $1 per share has been maintained, although an extra of $1 was paid early last January. The financial status of Youngstown is exceptionally strong, hence the outlook for a substantial year-end special is enhanced.

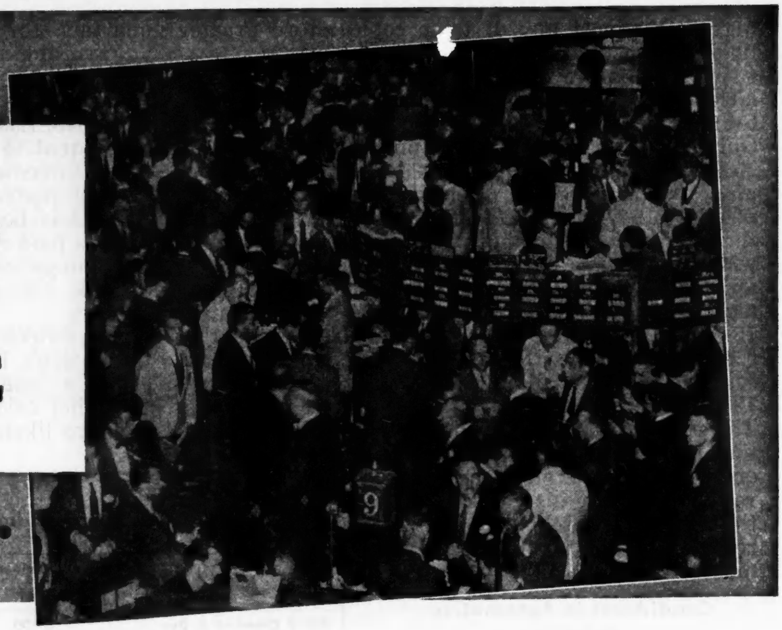
Sears Roebuck, the leading mail order house and the nation's largest retail distributor, last year declared a year-end extra of 75 cents per share. Due to higher sales and probably larger profits in 1948, it seems likely that share- (*Please turn to page* 48)

Promising Candidates for Year-End Extras

	Dividends Paid 1947	To Date 1948	Earnings Per Share 1947	6 mos. 1948	Recent Price	Price Range 1948
Allied Chemical & Dye	$9.00	$4.50	$13.70	....	$182	198 -171
American Chicle	2.33 a	1.75	4.00	1.83	43	51 -42½
American Smelting & Refining	5.00 b	3.00	12.65	5.18	56	68 -46¾
Beechnut Packing	2.07 a	1.20	3.61	1.73	34	37¾-32¼
Blaw-Knox	1.10	.75	2.23	1.33	15	19⅞-13
Borg Warner	2.05	4.50	10.20	6.10	58	66¼-42½
Burroughs Adding Machine	.75	.45	1.36	1.32	16	17¾-12½
Briggs & Stratton	2.50	1.40	4.44	2.84	30	34¾-25⅛
Campbell, Wyant & Campbell	2.50	1.50	5.20	2.64	25	31¼-24¾
Clark Equipment	2.75 a	1.50	8.21	5.06	35	38¼-27¾
Container Corp.	4.50	1.50	10.09	4.05	35	42½-33¾
Crown Zellerbach	1.70	2.00	6.81	1.45 g	28	34⅝-26¾
Du Pont	8.00	6.00	9.88	5.11	172	188⅞-164
Eaton Mfg.	5.00	3.25	8.34	6.29	64	65⅝-47¼
Glidden Co.	1.10 a	1.90	7.00	3.02 h	22	28 -21
Gulf Oil	2.75	3.00	10.53	6.80	68	81 -57⅞
Green, H. L.	2.37 a	2.50	4.76	1.68	36	40⅛-29½
General Electric	1.60	1.70	3.30	1.89	39	43 -31¾
Goodrich, B. F.	5.00	3.00	16.18	7.64	59	64 -47¼
International Paper	4.00	3.00	15.02	7.66	57	64⅜-42⅜
Johns-Manville	1.40 a	1.05	3.18	1.89	34	42¼-33¼
Jones & Laughlin	2.00	2.00	8.45	4.34	35	37¾-29¼
Kress, S. H.	3.50	2.00	5.39	....	53	58½-45½
Libbey-Owens-Ford	3.00	1.50	4.38	2.78	50	56½-46
Life Savers	2.80	1.20	3.84	1.78	35	38½-31½
Lee Rubber & Tire	3.00 c	1.50	9.47	3.64	40	47 -35
Midland Steel Products	4.00	1.50	11.21	5.02	41	48 -35
Montgomery Ward	3.00	3.00	8.86	4.58	54	65 -47
Mueller Brass	1.50	.90	4.20	1.81	18	24 -16
National Biscuit	1.50	2.00	3.37	1.48	31	31½-26⅛
National Dept. Stores	1.50	1.25	4.12	1.18	16	21 -14½
Merck & Co.	2.05	2.90	5.32	4.17	59	63⅞-44½
Penney, J. C.	1.50	2.50	4.29	2.30	46	49¾-38½
Pure Oil	3.00	1.50	2.38	1.45	43	53 -40⅛
Pullman	1.50	1.25	4.77	4.93	33	42 -25⅛
Revere Copper & Brass	1.00	.75	5.93	2.36	17	21¼-15½
Royal Typewriter	1.55	2.10	3.49	3.37 l	21	27⅜-17
Republic Steel	2.00	1.75	5.17	2.84	29	31⅞-22⅜
Reynolds Tobacco	2.00	1.35	3.04	1.32	47	50 -46
Sears, Roebuck	1.75	.75	4.56	2.09 m	38	42¼-31¾
Sinclair Oil	1.00	2.00	4.07	3.70	25	32¼-15
Sun Oil	.75 e	.98 a	5.28	5.01	66	70½-50½
Thompson Products	2.00	2.25	9.57	5.04	55	59½-39¾
Tide Water Associated Oil	1.05	1.30	4.57	3.09	26	32½-19⅛
Underwood Corp.	4.00	2.50	8.31	3.44	51	59¼-45
Westinghouse Air Brake	3.00	1.50	4.22	2.50	37	39⅝-32¾
Woolworth	2.50	2.00	4.32	....	45	49⅝-43⅛
Wrigley	3.00	3.50	4.31	2.26	66	69 -60½
Yale & Towne	1.60	1.00	5.85	2.30	27	34¾-27
Youngstown Sheet & Tube	4.00	4.00	13.31	7.18	80	87½-65½

a—Adjusted.
b—Plus 20% stock.
c—Plus 5% stock.
e—Plus 10% stock.
f—May 31 quarter.
g—July 31 quarter.
h—9 months July 31.
l—9 months April 30.
m—24 weeks July 16.

FOR PROFIT AND INCOME



October

On a 50-year average October has been a so-so month for the market, bringing sizable net gains for the Dow industrial average in 18 years, significant losses in 14 years, only slight change either way in 18 years. It has been a fairly good month in bull-market years, but seldom outstanding. On the other hand, it has been a bad month in most bear-market years. Examples: 1907, 1917, 1929, 1930, 1932 and 1937. This is not a bull-market year; but if we are in a bear market, as distinct from a broad trading range, we suspect it will be an unspectacular one, barring war. This column does not see an economic basis for a selling rush, or a psychological basis for more than purely technical and small rallies. Hence the October, 1948 change in the market should be unexciting unless war fears deepen considerably.

Bond Market

Supply and demand in the high-grade bond market is preponderantly an institutional matter. To institutions, even small changes in bond prices are of great importance. Thus, the question whether the monetary authorities may eventually lower the 100 ¼ support level for long-term Government bonds to 100 or maybe even 99 is debated as if the very destiny of the nation hinged upon it. The discussion and the agitation could be unduly disturbing to individual investors. This column offers the following observations: (1) With the Federal debt where it is, an entirely free market in Government bonds is out of the picture; and fluctuation, from the point of view of non-institutional investors, will be slight. (2) Interest rates applying to private credit, both long term and short, are probably near their peak because the inflationary boom, and the resultant demand for credit, is probably near its peak. (3) The basic credit position of the average American corporation is even stronger than ever before. For all these reasons, more than a quite small, and temporary, further decline in high-grade corporate bonds need not be allowed for; and any conceivable decline in medium-grade and speculative bonds will be more moderate than in past cyclical adjustments. You should at all times have some reserve cash and sizable holdings of fixed-income investments before considering common stocks. Because of present market uncertainties, the cash reserve should be highly conservative; and fixed-income holdings should be confined to high-grade bonds so far as is practicable. The non-negotiable, but redeemable, Government bonds provide a combination of yield and absolute protection of principal never available to investors in older days.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Allied Stores	6 mos. July 31	$2.34	$2.08
Brillo Mfg.	6 mos. June 30	1.24	.60
Colonial Mills	9 mos. August 31	8.48	6.64
Diana Stores	Year July 31	1.20	1.06
Dejay Stores	6 mos. July 31	.85	.48
Hayes Industries	Jear July 31	1.32	def. .23
Montgomery Ward	6 mos. July 31	4.58	2.60
Oppenheim & Collins	Year July 31	1.83	.94
Quaker Oats	Year June 30	10.49	9.81
Timken-Detroit Axle	Year June 30	3.53	2.91

Deflated

When a group of stocks has declined greatly from a previous high, there is a temptation to think that the issues are "oversold" or "well-deflated" and therefore cheap. One example is the motion picture stocks. Measured from 1946 bull-market tops, few groups have fallen so far. But measured from average prewar levels they are actually higher than the market and far above

their past bear-market lows. The trend of earnings and dividends is downward. Due to completed write-downs on old films and meat-axe economies in production of new ones, earnings might improve moderately in 1949, but dividends are bound to be lower than for 1948. This column doubts that the stocks are over-sold.

Others

Air line stocks have taken a terrific beating since 1946. What could you lose, say, in American Air Lines, now that it is down to 7¼? The answer is that you might still lose a good deal. In few industries is the long-term status of existing equities more unclear than it is in air transport.

Different

In a different class are retail trade stocks, drug and proprietary-product stocks, and oil stocks, all down very sahrply from their highs, made in 1946 in the first two instances and within recent months in the case of oils. On the basis of earnings and dividends, this column would expect the retail trade group to behave very closely in line with the general market from here on, with variety chain stocks holding up better than the market. It would expect the drug group to be more stable than the market, although a minority of these issues, and especially Bristol-Myers, are still under pressure. It would expect the oils both to hold better than the market and to rally more than the market in periods of general strength, but not to get back to the highs of the summer within the foreseeable future.

Trouble

Brokers point out that rails have acted better than oils in recent weeks. Our reaction is: So what? We think it is virtually a sure than that this is temporary. We see another wage increase looming up on the railroads; another application for higher freight rates; and another wait for action by the ICC. What we do not see is how much further the Commission can go in jacking up freight rates without irreparable harm to the economy—and what the railroads will use for money whenever there is any material let-down in traffic. Regardless of improvement in debt position in recent years, most rail stocks remain highly speculative.

Selection

Some investors have to get the kind of income yields which only common stocks offer, yet wish to minimize the risk factor. The following stocks might be considered American Home Products, Consolidated Gas of Baltimore, Endicott Johnson, First National Stores, National Biscuit, Sterling Drug, Texas Company and Woolworth. Each has paid unbroken dividends for many years. Each paid the same dividend in the depression year 1938 as was paid in 1937, with the exception of American Home Products where the shrinkage was from 87 cents to 80 cents; Sterling Drug, from $2.10 to $1.90; and Texas Company, from $2.25 to $2.00. At present prices these stocks offer an average yield slightly above 6.1%. There is not much chance that any of these companies will pay less in 1949 than they are now paying, even if some degree of general business recession develops. The stocks, of course, cannot be immune to market decline but are bound to hold up considerably better than average. From a long-term view they are reasonably priced. In other words, there will be periods when they show you paper losses, periods when they show you paper profits—and under either condition you will get excellent dividends, barring war and a new excess profits tax.

Divergence

In a market in which movement of the averages is not great, as has been so for the past couple of months, divergent action of different issues stands out all the more. Here is a partial list of the stocks which made new highs for the year in the month of September: Atchison, Bliss, Brooklyn Union Gas, Central Foundry, Rock Island, National Biscuit, Electric Boat, Lorillard, Lehigh Portland Cement and Philip Morris. No particular significance can be attached to this, for no "market-leader" industrials are involved, such as General Motors or U. S. Steel and their like. And the fact remains that the stocks making new highs in September were greatly exceeded by the number making new lows.

Continental

Continental Motors has a poor back record but keeps on trying to do better. In the new air-cooled engine which it has now perfected for Army vehicles, but which is suitable also for commercial trucks and buses, it seems at long last to have hit on something of major importance. There is less than the usual doubt which attaches to "revolutionary" products, for the Army cooperated for several years in the development of this one and the ordnance officers involved do not hide their enthusiasm for it. What it might mean in profits for Continental, and when, is something else again. The stock, selling around 8, is what security analysts cautiously call "an interesting speculation." And that's about all we can say.

Office Equipment

Sellers' markets have a way of ending almost before you know it. The country has come a long way in the last year in catching up with accumulated demands. Office equipment is a case in point. A year ago it was a shortage situation, with order backlogs rising. Today it is about in balance, with business on the books still good

(*Please turn to page* 47)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Airline Foods	Year June 30	def. $ .07	$ .38
American Molasses	Year June 30	.63	1.42
American Ship Building	Year June 30	1.47	2.77
Arnold Constable	6 mos. July 31	.56	.86
Huyler's	Year June 30	1.02	3.53
Manati Sugar	Year June 30	3.56	11.13
McKesson & Robbins	Year June 30	4.89	5.41
Mueller Brass	9 mos. August 31	3.19	3.25
National Dept. Stores	6 mos. July 31	1.18	1.53
Universal Pictures	Jan. 31 quar.	.08	.73

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

General Mills

"Please advise on recent earnings, dividends and new facilities of General Mills."

B.A., Atlantic City, N. J.

General Mills (makers of Wheaties, Gold Medal Flour, Bisquick, Softasilk et al) in its 20th annual report of operations showed new highs in sales, earnings, and wages and salaries. Total sales were $458,473,576, an increase of $87,541,149 over the preceding year. Earnings were $13,068,057, compared with $9,236,214, and wages and salaries (including retirement benefits) were $42,166,799 an increase of $4,441,547 over the preceding year.

The earnings averaged 2.9 cents on each dollar of sales. Earnings per share of common stock were $5.83 compared with $3.91 in the preceding year. Dividends to the 12,700 stockholders totalled $5,934,006. Earnings reinvested in the business were $7,134,051.

A substantial part of the increase in sales was the direct result of the higher costs of grain and other raw materials. Direct taxes to all Government agencies were $11,428,929 compared with the previous year's tax bill of $9,975,311.

The largest construction program in company's history continued to progress during the year. A new package food plant was placed in operation at Lodi, California. Nearing completion are a new flour mill at Los Angeles and a Chemoil plant for the production of fatty acids and their derivatives at Kankakee, Illinois.

General Mills has consistently earned and paid regular dividends without reduction from the rates paid in 1929. A recent survey showed the company is one of the nine listed on the New York Stock Exchange with this record. Dividend payments including extra totalled $2.00 per share up to August 2nd of this year.

Net earnings have averaged approximately 3 cents per dollar of sales throughout the 20 year period.

When General Mills was organized 20 years ago the company had three grocery products. Today there are 12 nationally advertised grocery products, and the bakery, family flour and animal feed business has also expanded. In addition, the company's complete products line has been extended, through a policy of diversification, to include a variety of items such as fatty acids, pharmaceuticals, home appliances, and package machinery.

Soss Manufacturing Company

"Please advise on recent earnings and prospects for Soss Manufacturing Company."

C.J., Salem, Ohio

Soss Manufacturing Company earned a net profit of $242,902 for the six months ended June 30, 1948, compared with $195,345 for the same period a year before.

Net sales for the first half of 1948 reached a new high of $2,121,247, compared with $1,466,854 for the corresponding period of 1947.

Net earnings were equal to $1.25 per share, after taxes, on the outstanding 195,000 common shares for the first half of this year, as compared with $1.00 per share, after taxes, on the same number of shares a year before.

The Soss Manufacturing Company manufactures hinges for the automotive and building industries. The company had a backlog of unfilled orders totalling $1,604,000 as of August 10th. Since the company serves both the automotive and building fields, prospects are exceptionally good over the near term for a continuing high level of sales. Even further increases in volume can be expected over coming months, provided steel and other materials are available in sufficient quantities. Dividends paid thus far this year have amounted to 75 cents per share.

Ritter Company Incorporated

"Please advise current assets, current liabilities and recent earnings of Ritter Company."

B.M., Berwick, Pa.

The net income of Ritter Company Incorporated, manufacturers of dental office equipment, etc. for the second quarter ended June 30, 1948, after making provision for all taxes, reserves and other charges, insofar as they can be estimated at the time, amounted to $210,897.73. The net profit for the second quarter of 1947 amounted to $262,085.57.

The net income for the six months ended June 30, 1948, after making provision for all taxes, reserves and other charges amounted to $422,550.60, equal to $2.50 per share as compared to a net profit of $570,529.75 or $3.49 per share for the corresponding period of last year.

The amount provided during the second quarter of this year for Federal income and State Fran-

(*Please turn to page* 43)

Keeping Abreast of Industrial and Company News

Next time you receive a copy of the **Sears Roebuck** catalogue, you may be surprised to find that automobiles are being sold by mail. Preliminary negotiations have already been held between **Kaiser-Frazer Corporation** and the mail order company, whereby Sears may market passenger cars through its retail outlets as well as by catalogue. This would mark the first time for such an event.

R. B. McColl, president, predicts that the **American Locomotive** plant at Schenectady will build more than a billion dollars worth of Diesel-electric locomotives in the next ten years. He states that the overwhelming trend to Dieselization of the nation's railroads is even greater than expected at the end of the war. He believes that it will take approximately 20,000 Diesel-electric locomotives in the next ten years to replace the 35,000 steam units now in operation in the United States.

Private shipyards had on order or under construction on September 1 a total of 72 vessels of 1,000 gross tons or over, aggregating 1,052,869 gross tons, and two dredges totaling 24,672 displacement tons, as reported by the **Shipbuilders Council.** Included in the total were the two fast passenger liners to be constructed by Bethlehem Steel Co. for the American Export Line.

General Motors' AC spark plug division has received an order for $23,000,000 worth of new bombing navigational computers said to be superior to the celebrated war-time Norden bomb sight. Production will start as soon as necessary facilities can be installed. The new bomb sight was developed by the **Sperry Gyroscope Corporation.**

According to the Census Bureau, today nearly a million **women** in the United States are **in business** for themselves. They are proprietors, managers or officers in 442 of 451 types of jobs classified by the Government. They knit, crochet, cook, baby-sit, and make cigars. They sell tombstones, real estate, patent medicine. They run restaurants, bowling alleys, trucking and clothing establishments. Currently, four times as many women are setting up their own shops as did in 1930.

Sales in **retail drug stores** in July amounted to $304,000,000, the highest of any July on record, as reported by the Commerce Department. This represents an increase of $6,000,000 over June and $11,000,000 over July of last year. Independent retail druggists did 77 per cent of the business and chain stores the remainder.

Continental Motors Corp. has developed heavy-duty, air-cooled engines that solve the problems of weight and space. The result of five years of research in response to the Army Ordnance request for an "air-cooled engine having a minimum of 650 horsepower," the new engines constitute a six-model line ranging from 125 to 1,040 horsepower. Lacking radiators, water pumps, and other cooling accessories found on liquid-cooled engines, the new power plants have distinct advantages for military vehicles.

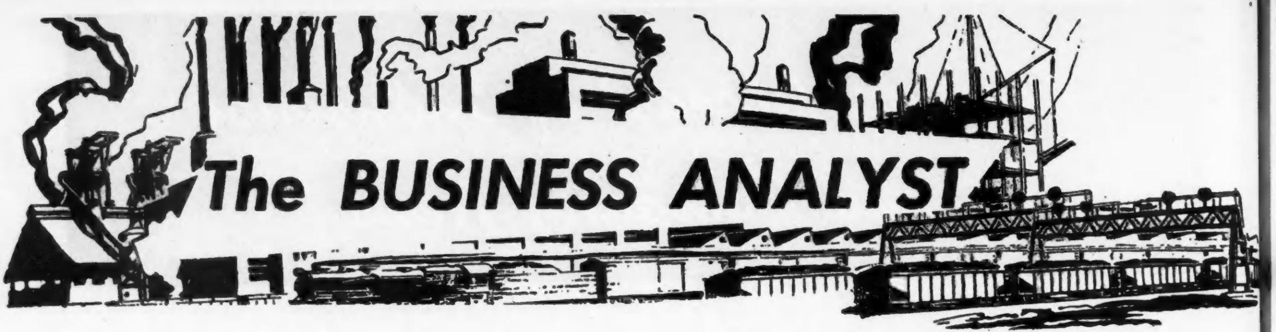
Good news for coffee drinkers! Electrons are now replacing conventional methods of achieving uniformly roasted and flavored coffee. Uniformity previously impossible in coffee roasting has been attained, says L. S. Slater, food engineer for the Brown division of **Minneapolis-Honeywell Regulator Company,** by development of an electronic system which permits accurate control of time and temperature. This should prevent over-roasting, which gives coffee that bad taste.

By exposing only half the width of 16mm. film at one time, a new microfilming machine more than triples the image per foot of film and cuts film requirements by two thirds in many business applications, according to Recordak Corporation, subsidiary of **Eastman Kodak.** Using the duo film unit with a reduction of 35 to 1, banks can photograph three times as many checks per foot of film as with conventional models which use the full width of the 16mm. film for a single image.

R. W. Brown, president of the **Reading Company,** points out the fact during 1947 fewer passengers lost their lives in railroad accidents than in any of the 60 preceding years covered by Interstate Commerce Commission records. He states that the railroads performed 46 billion passenger-miles of service, in the course of which only 75 passengers lost their lives. He adds that human failures or negligence are still responsible for approximately 85 per cent of all accidents.

Botany Mills has developed a potentially important new protein product, Botanein P, which may be suitable for taking orally to accelerate the growth of epithelial tissue such as hair and skin. Known to contain 17 amino acids, nine of which are indispensable to body growth, the new compound has a cystine content of almost 12 per cent, higher than any other protein with the exception of insulin.

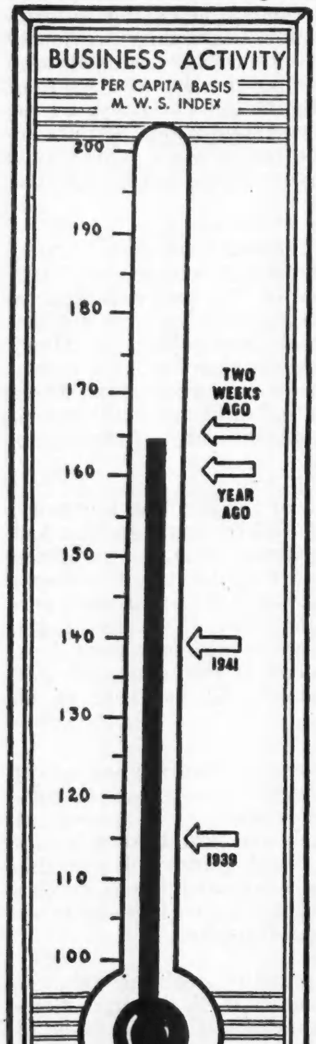
Demonstrating a new puncture resisting tubeless tire, J. L. Collyer, president of **B. F. Goodrich Company,** announces the opening of a whole new field of organic chemistry through discovery and commercial development of beta-propiolactone, a new chemical. Results should be a reduction in the cost of many consumer goods.



What's Ahead for Business?

By E.K.A.

The expected autumn pickup is now under way, though in some directions with less momentum than anticipated. Industrial production readvanced in August and early September as more plants got their vacation periods out of the way and returned to normal work schedules. Thus most of the production decline experienced in July was offset in August, with the FRB Index of Industrial Production returning to 190% of the 1935-39 average ,compared with 186% in July. Though still below the June mark of 192, the gap is likely to have been closed in September. There is little disagreement that business activity will continue at current high levels through the balance of the year at least and probably into 1949. There is no unanimity of the outlook beyond.



Retail trade, too, is showing the usual seasonal increase, though gains have been somewhat spotty, partly due to weather conditions. Greater uniformity can be expected as the autumn season advances. Something of a buying rush preceded the new credit controls which became effective September 20, but merchants generally took them in their stride. There are no signs of any lessening of consumer resistance to high prices but availability of more promotional merchandise, chiefly in the soft goods lines, is taking some of the edge off this resistance.

Much of this merchandise is probably coming from marginal sources, representing goods formerly absorbed freely at higher prices when merchandise was scarce. With inventories larger and competition spurred by price resistance, these sources apparently are now forced to trim their profit margins in an effort to maintain, or obtain volume. Established lines have not yet been greatly affected, but this trend may widen after the turn of the year, thus gradually exert a growing merchandising influence. Doubtless re-examination of cost and price factors will be a principal "must" for business in the months ahead.

Price trends meanwhile continue mixed. Prices of some additional industrial products or raw materials have been raised while those of farm products and foods generally tended somewhat lower. A case in point is the 35c a barrel boost in the crude oil price by one oil concern, and the marked reluctance by most others to follow this move. A similar situation has prevailed before, but now there seems to be much greater awareness of the difficulty of passing on higher costs to the consumer.

Generally among businessmen, concern presently centers more on the possibility of recessive trends than of further inflation. Even rising armament and ECA outlays are viewed as no more than offsetting elements to natural declining tendencies in the economy. There is widespread realization that consumer demand in various lines is getting progressively uneven; supply-demand balance is reached in one industry after another, leading to greater awareness of inventory problems.

Still manufacturing inventories have continued their steady growth, thereby contributing to overall business activity. In July they rose some $431 million to a new high of $31.1 billion. Total business inventories reached a new peak of $51.7 billion, a $400 million gain for the month. The risk inherent in such inventories, should prices begin to slide, is obvious. If the autumn business pickup fails to come up to expectations, there may be fairly heavy pressure to reduce stocks particularly in consumer goods lines. The trend of retail trade during the weeks ahead therefore holds more than ordinary significance.

Optimism vs. Caution

Secretary Snyder in a recent statement opined that few unhealthy spots exist in our economy and that continued prosperity is likely for years to come. In its broadest sense, this may be true though this statement certainly is not closed to argument. But of more immediate importance to most businessmen are the growing signs of deflationary forces at work. No one expects the boom to fall apart over night, but the economic adjustment currently under way—its unknown ultimate extent and repercussions—are naturally introducing a note of caution. Heavy defense spending may again come to the rescue and bolster the economy against a serious letdown; but it can hardly prevent the economic adjustment from continuing its course. If it does, it will mean renewed unbalance—creating new problems. Coming at this stage; such a course could hardly be a matter of indifference.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT — Critical foreign situation depresses stocks; but bonds, including U. S. Government and foreign, advance fractionally. Banks draw on deposits at central reserve centers, curtail loans, sell Government and other securities to meet higher reserve requirements. President Joseph M. Dodge of American Bankers Association believes that Federal Reserve should continue to support Government bond prices and thinks that recent monetary actions by the Government are having a deflationary effect—"psychologically and practically." He predicts an extension of the current uptrend in interest rates if the monetary authorities take further credit control measures. Third quarter profits of New York City banks were at least as good as last year.

TRADE—Department store sales in week ended Sept. 18 rebounded to 11% above last year after dipping to 2% below during the preceding week. All ten of the twelve reserve districts from which reports have been received showed increases, Dallas leading with an increase of 31%. Chicago and Philadelphia were close seconds with increases of 30% each. Kansas City district made the poorest showing with a gain of only 1%.

INDUSTRY—Business activity sagged about 1% during fortnight ended Sept. 18, down to a level only 3.6% above last year. Corporate profits for the first quarter were 10% above last year and averaged 5.6 cents per dollar of sales. Average for wholesale and retail trade, however, was only 4 cents. July cash dividends 10% ahead of last year, against gain of only 8% for three months. Housing starts in August 5% below last year; but freight car production highest in over a year. Producers of steel and other metals think it will be two years before supply catches up with demand. Fertilizer sales in August 15% below last year.

COMMODITIES—Futures rally a little, then lose part of gain; while spot markets continue to sag during past fortnight.

Department Store Sales have been rather slow in picking up after Labor Day. In the fortnight ended Sept. 18 they were only 5% above the corresponding period last year, compared with a cumulative increase of 7% for the year to date.

* * *

Profit Margins are narrowing, because costs have been rising faster than sales. A survey by the National Retail Dry Goods Association, covering 198 stores with total annual sales of $1.2 billion, shows that net profit per dollar of sales averaged only 2.9 cents during the first half, compared with 3.4 cents for the first six months of 1947.

* * *

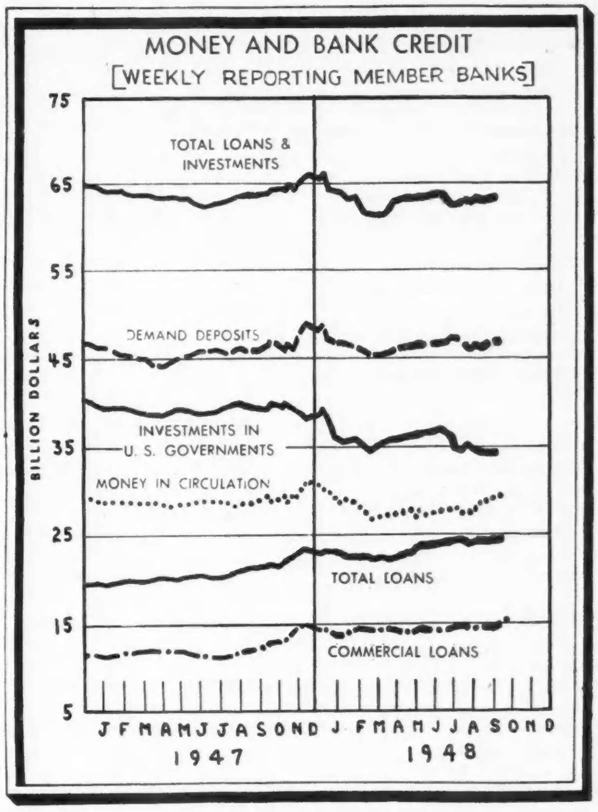
Women's Wear manufacturers are finding greater sales effort needed now to move their products.

* * *

President Gordon C. Corbaley of the American Institute of Food Distributors, Inc. declares that, with prospects of slowly declining prices, the **Grocery Industry** "is in for the keenest competition it has ever seen.... The period of easy profits is ending, and poorly managed or financed businesses are headed for trouble."

* * *

Total corporate **Profits** for the first quarter, according to the Commerce Department, averaged 5.6 cents per dollar of sales. For wholesale and retail trade, however, the average was only four cents. Total corporate profits for the second quarter were 11.9% above the like period last year.



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Publicly reported cash **Dividends** (about 65% of the total) disbursed during July were 10% ahead of the like month last year, compared with a gain of only 8% for three months.

* * *

The nations' physical volume of **Business Activity** (the National Gross Product) shrank by a little more than 1% during the fortnight ended Sept. 18. A considerable part, though not all, of the contraction was occasioned by strikes, principally at California oil refineries; yet, after allowing for such depressants, the fact remains that the customary seasonal upturn in business is a little behind schedule this autumn. For this reason, the margin of increase over last year has narrowed to 3.6%.

* * *

According to a Federal Reserve Board survey, about 18.5 million, or 49%, of non-farm families owned their own homes at the start of 1948. This is a strong bulwark against the spread of communism here. The percentage, largest in our history, compares with 37% in 1900, 46% in 1930 and 41% in 1940.

* * *

In addition to the 49% of non-farm families who owned their own homes, were 45% who paid rent, and 6% who neither owned homes nor paid rent. The 17 million non-farm families

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Aug.	1.04	1.31	1.06	1.55
Cumulative from mid-1940	Aug.	371.5	370.5	358.4	13.8
FEDERAL GROSS DEBT—$b	Sept. 22	252.2	252.0	258.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Sept. 15	15.5	15.3	16.0	26.1
Currency in Circulation	Sept. 22	28.1	28.2	28.6	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Sept. 15	7.92	7.96	7.18	4.26
93 Other Centers—$b	Sept. 15	12.30	12.29	10.96	7.60
PERSONAL INCOMES—$b (cd3)	July	214	215	195	102
Salaries and Wages	July	135	134	123	66
Proprietors' Incomes	July	51	53	45	23
Interest and Dividends	July	17	17	16	10
Transfer Payments	July	11	11	11	3
(INCOME FROM AGRICULTURE)	July	26	27	22	10
CIVILIAN EMPLOYMENT—m (cb)	Aug.	61.2	61.6	59.5	51.8
Agricultural Employment (cb)	Aug.	8.4	9.1	9.0	8.8
Employees, Manufacturing (lb)	July	16.2	16.2	15.7	13.8
Employees, Government (lb)	July	5.6	5.6	5.5	4.6
UNEMPLOYMENT—m (cb)	Aug.	1.9	2.2	2.1	3.8
FACTORY EMPLOYMENT (1b4)	July	158	158	155	47
Durable Goods	July	185	184	184	175
Non-Durable Goods	July	137	133	132	123
FACTORY PAYROLLS (1b4)	June	359	347	327	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	July	39.8	40.2	39.8	40.3
Hourly Wage (cents)	July	133.0	131.7	122.6	78.1
Weekly Wage ($)	July	52.96	52.95	48.98	32.79
PRICES—Wholesale (1b2)	Sept. 18	169.4	168.0	168.1	92.5
Retail (cdlb)	July	195.2	193.5	179.7	116.2
COST OF LIVING (1b3)	July	173.7	171.7	158.4	110.2
Food	July	216.8	214.1	193.1	113.1
Clothing	July	197.1	196.9	184.7	113.8
Rent	July	117.3	117.0	110.0	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	July	10.72	10.87	9.46	4.72
Durable Goods	July	3.19	3.15	2.55	1.14
Non-Durable Goods	July	7.53	7.72	6.91	3.58
Dep't Store Sales (mrb)	July	0.69	0.82	0.62	3.58
Retail Sales Credit, End Mo. (rb2)	July	6.68	6.73	4.88	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	July	248	265	231	181
Durable Goods	July	301	307	260	221
Non-Durable Goods	July	217	240	213	157
Shipments (cd2)—Total	July	306	336	270	187
Durable Goods	July	331	369	285	227
Non-Durable Goods	July	291	317	262	158
BUSNESS INVENTORIES, End Mo.					
Total—$b (cd)	July	51.7	51.4	44.9	28.9
Manufacturers'	July	30.1	29.7	26.8	16.7
Wholesalers'	July	8.0	8.1	6.7	4.1
Retailers'	July	13.6	13.6	11.4	8.1
Dept. Store Stocks (mrb)	July	2.1	2.2	1.8	1.4
BUSINESS ACTIVITY—1—pc	Sept. 18	163.8	165.8	161.5	141.8
(M. W. S.)—1—np	Sept. 18	186.0	188.3	179.8	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 39)

who paid **Rent** disbursed annually about $7 billion, or 12% of their incomes for that purpose. The percentage in 1941 was 16%, and in 1944 13%, the lower ratios in 1941 and 1944 being the result of rent control. The 18.5 million non-farm home owners spent about $5 billion annually for repairs, in addition to fuel, service, taxes and interest. This would seem to indicate that it costs about as much to own your homes as to pay rent.

* * *

Housing Starts in August were about 5% below the like month last year, against a cumulative increase of 23% for the first eight monhts. The peak this year was reached in April, but last year not until October.

* * *

According to Dun & Bradstreet, **Permits** for building construction issued in August covered contemplated expenditures of $377 million—30.1% more than in the like month last year, compared with an eight-months' increase of 44.7%. For New York City the August increase was 58%.

* * *

Domestic **Freight Car** production climbed to 10,394 in August, 70% ahead of August last year, and a new high since the Government set its goal of 10,000 per month. Freight cars on order as of Sept. 1 numbered 117,815. In the first eight months, 69,083 new freight cars and 847 new locomotives were installed here; compared with only 31,390, and 535, respectively, during the like period last year.

* * *

The **Railroads** have readied a request to the I.C.C. for permission to raise freight rates on most commodities an additional 8%. The proposed advances do not take into consideration any further rise in costs which may result from current wage demands of 1.3 million rail workers.

* * *

Producers of non-ferrous **Metals** report that supplies of copper, lead and zinc are still lagging far behind demand and believe it will be at least two years before they can catch up with orders. The situation appears to be similar in steel, where it is believed in some quarters that supplies may become even more inadequate if political clouds abroad grow darker. This looks like continued prosperity; but watch the major consuming industries for a more dependable clue.

* * *

A joint survey by the S.E.C. and the Commerce Department indicates that **Capital Expenditures** for plant and equipment during the last six months of 1948 may reach a record total of $9.6 billion. How-

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Aug.	190	186	182	174
Mining	Aug.	159	153	150	133
Durable Goods, Mfr.	Aug.	221	219	210	220
Non-Durable Goods, Mfr.	Aug.	176	169	169	151
CARLOADINGS—t—Total	Sept. 18	910	789	931	833
Manufactures & Miscellaneous	Sept. 18	413	351	413	379
Mdse. L. C. L.	Sept. 18	109	93	121	156
Grain	Sept. 18	51	43	54	43
ELEC. POWER Output (Kw.H.)m	Sept. 18	5,426	5,166	4,977	3,267
SOFT COAL, Prod. (st) m	Sept. 18	11.9	10.8	12.2	10.8
Cumulative from Jan. 1	Sept. 18	414	402	437	446
Stocks, End. Mo.	July	58.1	58.0	45.2	61.8
PETROLEUM—(bbls.) m					
Crude Oouput, Daily	Sept. 18	5.3	5.3	5.2	4.1
Gasoline Stocks	Sept. 4	95	96	86	86
Fuel Oil Stocks	Sept. 4	72	71	57	94
Heating Oil Stocks	Sept. 4	69	66	56	55
LUMBER, Prod. (bd. ft.) m	Sept. 18	554	493	542	632
Stocks, End Mo. (bd. ft.) b	July	6.3	5.9	6.0	12.6
STEEL INGOT PROD. (st.) m	Aug.	7.42	7.07	6.99	6.96
Cumulative from Jan. 1	Aug.	57.6	50.2	55.9	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Sept. 23	100	183	135	94
Cumulative from Jan. 1	Sept. 23	5,145	5,044	4,116	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 18	173	162	153	165
U. S. Newsprint Consumption (st)t	Aug.	410	381	375	352
Do., Stocks (mpt), End Month	Aug.	570	527	559	523
Pneumatic Casings Production—m	July	6.7	7.6	6.8	4.0
Natural Rubber Consumption (lt)t	July	48.8	55.7	40.4	54.3
Do., Synthetic	July	34.5	39.2	37.6	0.5

PRESENT POSITION AND OUTLOOK

ever, the physical volume of new construction and equipment put in place will probably be no more than represented by the $9 billion spent in the final half of last year.

* * *

Dr. Howard Lewis, professor of marketing, Harvard University, said recently before a meeting of the Purchasing Agents Association of New York, that, by the end of this year, 85% of industry's post-war **Expansion Program** will have been completed, and that definitely smaller investments are expected for 1949. Consequently, he concluded: "lower business profits are in sight for 1949."

* * *

Sales of **Fertilizer** tax tags during August were 15% below the like month last year, compared with a 10% increase for eight months. Perhaps farmers are not too keen for another record crop year.

* * *

During the week ended Wednesday, Sept. 22, banks drew on their deposits at central reserve centers, curtailed loans, sold Government and other securities to meet higher reserve requirements. President Joseph M. Dodge of the A.B.A. thinks that the F.R.B. should continue to support the Government bond market, and declares that recent monetary actions by the Government are having a deflationary effect—"psychologically and practically."

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

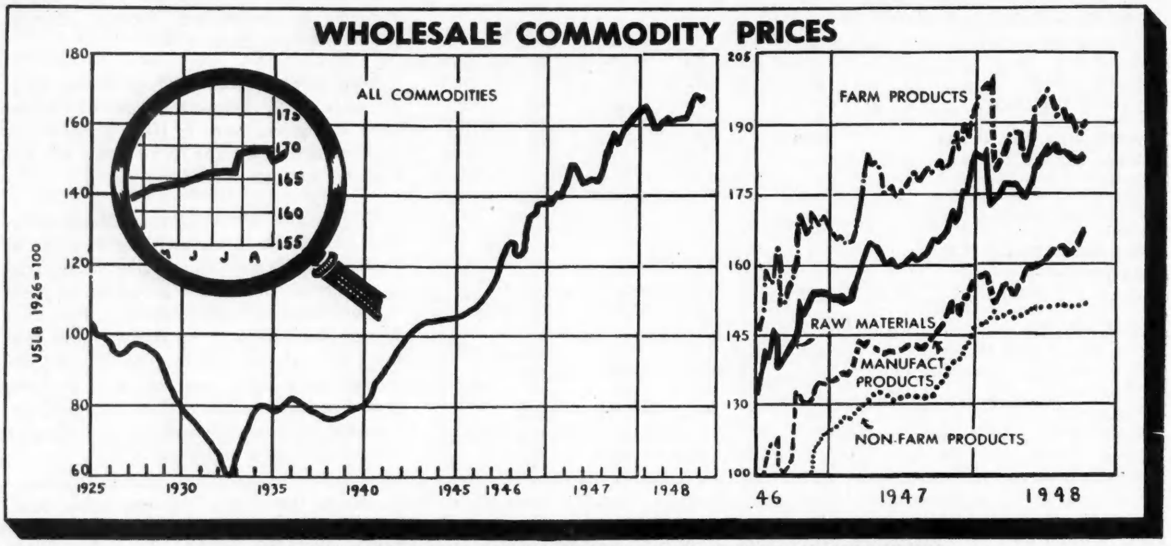
No. of Issues (1925 Close—100)	1948 Indexes High	Low	Sept. 17	Sept. 24
312 COMBINED AVERAGE	151.9	119.0	134.6	132.8
4 Agricultural Implements	240.1	178.8	211.0	205.1
11 Aircraft (1927 Cl.—100)	193.5	134.3	175.7	172.3
6 Air Lines (1934 Cl.—100)	515.6	394.6	395.9	408.8
6 Amusement	106.8	78.6	80.2	78.6d
13 Automobile Accessories	224.1	171.1	195.8	195.3
12 Automobiles	41.3	31.4	34.0	33.2
3 Baking (1926 Cl.—100)	21.9	16.4	19.8	19.4
3 Business Machines	297.1	224.7	269.1	264.3
2 Bus Lines (1926 Cl.—100)	168.4	133.4	147.1	140.0
5 Chemicals	267.1	221.6	238.0	234.8
2 Coal Mining	26.9	14.7	21.3	21.4
4 Communication	56.1	42.3	44.8	43.5
14 Construction	71.5	56.6	59.5	59.0
7 Containers	346.0	277.4	285.5	277.4c
9 Copper & Brass	119.1	92.0	102.0	100.6
2 Dairy Products	60.2	50.7	56.3	56.4
5 Department Stores	71.9	53.9	61.9	61.8
6 Drugs & Toilet Articles	184.4	147.4	151.4	147.4c
2 Finance Companies	268.3	199.4	234.9	237.1
7 Food Brands	177.6	152.8	160.8	160.1
2 Food Stores	67.5	59.7	61.4	61.4
3 Furniture	88.3	70.9	79.4	79.3
3 Gold Mining	772.7	602.5	613.6	602.5f

(Nov. 14, 1936, Cl.—100)	High	Low	Sept. 17	Sept. 24
100 HIGH PRICED STOCKS	91.84	75.27	83.04	82.12
100 LOW PRICED STOCKS	182.86	135.10	157.66	155.16
6 Investment Trusts	71.6	50.0	62.0	60.6
3 Liquor (1927 Cl.—100)	843.5	637.7	697.7	685.0
9 Machinery	179.5	136.8	151.5	146.7
3 Mail Order	125.5	89.8	104.7	103.2
3 Meat Packing	112.7	84.3	85.2	84.3c
13 Metals, non-Ferrous	189.1	138.0	160.3	158.5
4 Paper	47.7	34.1	41.7	40.0
24 Petroleum	301.0	199.5	251.3	250.3
19 Public Utilities	124.9	97.8	109.3	110.3
5 Radio (1927 Cl.—100)	30.6	17.8	23.3	22.3
8 Railroad Equipment	67.2	52.9	57.2	56.3
24 Railroads	30.3	20.5	27.1	26.5
3 Realty	27.1	21.1	24.0	23.7
2 Shipbuilding	140.5	102.8	133.2	135.6
3 Soft Drinks	516.5	333.5	339.6	333.5d
14 Steel & Iron	121.8	96.2	114.0	111.9
3 Sugar	54.7	44.8	49.4	48.9
2 Sulphur	281.9	206.6	257.3	256.3
5 Textiles	170.4	118.9	151.8	147.1
3 Tires & Rubber	33.6	27.5	31.9	31.8
6 Tobacco	71.7	62.4	69.5	68.8
2 Variety Stores	327.8	286.9	305.4	309.0
17 Unclassified (1947 Cl.—100)	109.8	90.0	101.0	98.6

New LOW since: c—1945; d—1944; f—1942.

Trend of Commodities

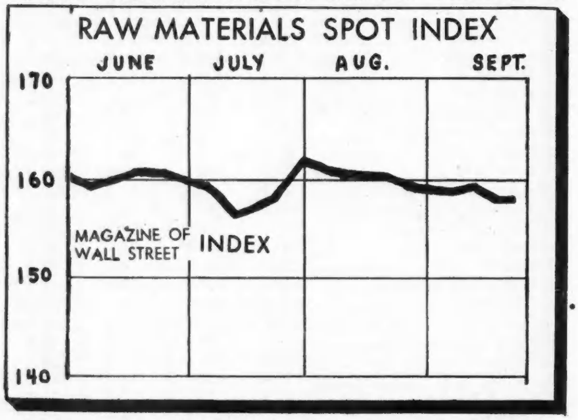
Spot prices for farm products continued to sag during the fortnight ended Sept. 25; while futures rallied a little, then lost part of the gain. Now that Governor Dewey has approved the Aiken-Hope long range support program enacted by Congress last July, there is no longer any doubt that, regardless of who is elected next month, the Government will acquire huge quantities of farm products and resort to other expedients to prevent farm staples from dropping materially below current levels. The Agriculture Department says that exporting countries will probably have about 38 million tons of grain for export this coming crop year, against only 34.6 million in 1947-48. The Department is in favor of stepping up our exports this year in order to reduce the expense of acquiring surpluses; but the Commerce Department believes that shipments should be pared to the bone to lower living costs for our own consumers. The controversy boils down to the question of whether it is better for the public to pay out more for food and less for taxes, or more for taxes or less for food. This column favors the latter; because whatever the Government might save on its price support program would be squandered on some other project, with little prospect that the promised saving in taxes would materialize. A bird in hand is worth two in the bush. With pipelines for cotton and wool goods filled to overflowing, prices have been declining spectacularly. One department store is buying mens' shirts for $23 a dozen that sold for $31 only two months ago. The Agriculture Department has amended its cotton loan regulations to permit loans on farm-stored cotton. Cotton dealers predict that 6 million bales of the 1948 crop will be acquired by the price supporters; but a threatened labor shortage may leave part of the crop unpicked.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

	Date Sept. 27	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	305.9	315.5	313.9	329.5	316.8	318.3	156.9
11 Imported Commodities	278.7	281.1	283.3	287.4	274.9	294.5	157.5
17 Domestic Commodities	325.0	340.0	335.3	359.9	347.2	352.2	156.6

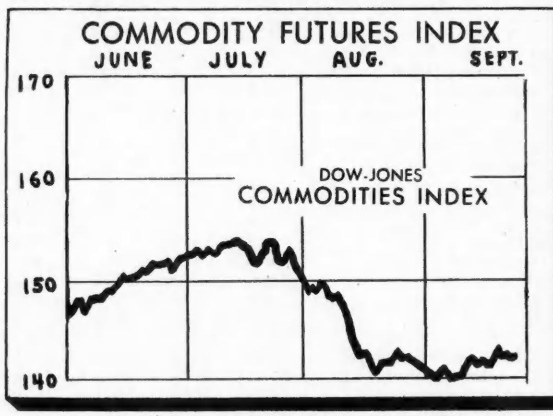
	Date Sept. 27	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	327.4	345.2	349.1	389.8	369.0	379.0	163.9
12 Foodstuffs	354.0	379.0	374.6	421.2	394.1	415.3	169.2
16 Raw Industrials	276.9	278.2	278.5	276.0	268.4	273.1	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.83	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	139.83	117.14	93.90	88.45	55.45	46.59	45.03	52.03

Lessons in Failure of Socialism in Britain

(*Continued from page* 21)

Government can almost always count, has this to say (June 5):

"Far too many of the Labor Party's actions seem to be inspired consciously or unconsciously, by mere envy and malice. The pursuit of equality ceases to be good when it becomes merely destructive, when it levels down without leveling up, when it pays more attention to pulling down the mighty from their seats . . ."

The Labor Party has presumably until the general elections, which are expected to be held in the Spring of 1950, to decide what its plea will be for continuing the present mandate. Unless British production expands considerably, so that each Englishman's slice of "the national cake" is increased, there is a possibility that "the policy of equality" will backfire and that the Tories will be returned to power.

The policy of the Conservative Party centers around its slogan "Set the People Free." The objective is to reduce controls and to allow private initiative rather than Government planning to put Britain on her feet. A Conservative Government would undoubtedly try to overhaul the nationalized industries, and reduce budgetary expenditures and taxes by revising the food subsidy program and possibly by cutting down some of the new social services, such as the recently introduced national health service. It would probably also remove the threat of further nationalization still hanging over some industries. However, apart from road transport, it would likely refrain from "unscrambling such omelettes as are already cooked." In other words, industries already nationalized, would continue nationalized. The return to a free economy would have to be gradual — too sudden a relaxation of controls might lead to disorder and higher prices.

The Gallup Poll last July indicated that a small majority of the British electorate would prefer a Conservative Government. The Tories were given 42½ per cent of the vote compared with 41 per cent for Labor. In the 1945 elections, Labor received 48 per cent of the vote and the Tories only about 40 per cent. There is, of course, also the possibility that Labor will split by 1950, between the more conservative, and now wiser, trades union wing and the radical socialist wing which apparently has learned nothing from past experience.

Where Steel Shortage Will Hit Most

(*Continued from page* 15)

age in its more severe manifestations would be pretty well licked—barring war. The hope for such an amazing production gain is based primarily on new production techniques, such as the use of oxygen in blast furnaces, of coal washing and sintered ore, rather than expansion of new steel making facilities. But in the meantime, steel makers will have to cut corners with what they have, forcing output to maximum levels and thereby getting more capacity at less expense.

Voluntary Allocations of Finished Steel so far Approved By OIC

(Tons, at Annual Rate)

Freight car manufacturers	3,000,000
National Defense	1,230,000
Ocean tankers (new and repair)	480,000
Warm air heaters	350,000
Inland waterway barges	240,000
Oil tanks, oil well equipment	198,000
Atomic energy research	160,000
Prefabricated steel houses	59,000
Anthracite coal mining	31,000
Aeronautic research	16,000

The allocation program of course can only be successful if the OIC remains adamant in the face of expected heavy pressure for more and more priorities by groups that find their supply reduced by other user's priorities. Such a scramble, unless resolutely opposed, could quickly doom the voluntary feature of the existing program and render full Government control inevitable.

The future effect on "free" users of steel is mainly governed by three factors: (1) The extent to which steel is actually ordered for currently approved allocation programs; (2) how many consumers groups are able to wrangle priorities from the OIC; and (3) the extent to which steel mills will have to alter their product mix to meet commitments under the program. The latter point is quite important, for it may put a much bigger bite on some steel products than the earmarking of an overall 10% of finished steel output would imply.

Answers to Inquiries

(*Continued from page* 36)

chise taxes, amounted to $160,000 as compared with $187,000 for the corresponding period last year. Provision for the Federal income and State Franchise taxes for the first six months of this year amounted to $312,000 as compared with $415,000 for the first half of 1947.

Shipments for the first six months of 1948 were 2.02% greater than those of the same period a year ago.

Current assets amounted to $6,071,448.67 on June 30, 1948 including cash and Government securities in the amount of $1,048,573. Current liabilities on June 30, 1948 including provision for Federal and other taxes, amounted to $1,534,402.12, a ratio of 3.96 to 1.

Dividends on the preferred stock for the first half of 1948 amounted to $2.50 per share and $1.00 for the common stock.

Greenfield Tap & Die Corporation

"Please report recent earnings and financing of Greenfield Tap & Die Corporation."

D.N., Hamilton, Mass.

After provision for Federal income taxes the consolidated net earnings of Greenfield Tap & Die Corporation and its subsidiaries amounted to $173,227.52 for the second quarter of 1948, as compared with $209,079.27 for the second quarter of 1947. These earnings for the second quarter were equal to 75 cents per share in 1948 and 91 cents per share in 1947. The net earnings for the first six months of 1948 amounted to $349,672.23, or $1.52 per share, and for the first half of 1947 amounted to $454,005.23, or $1.97 per share. The consolidated earnings of the corporation for the second quarter include the earnings of Ampco Twist Drill Corporation for May and June.

Before provision for Federal income taxes, the consolidated net earnings for the second quarter of 1948 and 1947 were $322,477.62 and $363,079.27 respectively. On

May 3, 1948, company bought the Ampco Twist Drill Corporation of Jackson, Michigan, which is being operated as a subsidiary. The purchase price was $750,000.

The corporation has been substantially able to finance this purchase of Ampco with its own funds. However, the loan with the Mutual Life Insurance Company of New York was revised in June by the acquiring of an additional $165,000. Thus, the loan is now $1,000,000, which was its original amount. The sinking fund payment of $55,000 due January 1, 1949, was given deferment over the remaining life of the note, and from January 1, 1950, the total sinking fund payments will be $75,000 per year. Dividend payments of 30 cents per share have been paid in each of the three quarters of the current year.

Changing Picture in the Oils

(*Continued from page* 26)

than a year earlier. Added to an estimated domestic production of 2.01 billion barrels, this should provide an over-all supply of 2.13 billion barrels for the current year, or enough to cover demand by a satisfactory though not too ample margin.

Of particular significance is the manner in which domestic production of crude has been steadily creeping up during 1948. In the first seven months of 1947, daily average production was 4.9 million barrels, but this figure rose to 5.4 million barrels for the same 1948 period, and for the week ended September 4 had reached a level of more than 5.5 barrels, with runs to refineries only slightly less. This made possible the production of 17.6 million barrels of gasoline, 1.9 million barrels of kerosene, 7.1 million barrels of distillate fuel and 8.5 million barrels of residual fuel during a single week.

The industry's impressive production and earnings record, along with the vast expansion program undertaken, would hardly have been possible if prices for crude oil and its derivatives had not been lifted substantially, although at different rates. The seemingly spectacular profits accruing to oil concerns resulting from record demand and firmer prices have tended to distort the real picture. Reserves of crude oil in the ground resemble a bank account, withdrawal from which lower balances that can only be restored through acquisition of further resources. Oil profits currently are abnormally large because prewar oil reserves were created at far lower dollar cost than now prevails, and they are now being sold at high prices. Replacement of reserves and obsolete facilities, on the other hand, can now be effected only at costs approximately twice the former rate.

Hence to avoid actual diminution of capital resources, the retention of large earnings is prodently required to fill the gap. In a valid sense, accordingly, a considerable portion of reported oil earnings are rather illusionary, or at best must remain isolated in relation to dividend potentials.

To meet the increasing demand for petroleum products, the oil industry has been obliged to look far beyond replacement of oil reserves and facilities in considering its capital problems. A Houdry catalytic cracking unit that cost about $6 million a decade ago now costs nearer $12 million. Prices for pipe have sharply advanced, and the cost of new tankers has skyrocketed. In prewar years the oil industry generated most of its new capital needed for expansion internally, or in other words used earnings for the purpose. According to a study made by the petroleum expert of the Chase National Bank, 30 large concerns during the 1934-45 period not only raised all their new capital in this manner but had some $39 million annually to spare. In 1947, however, capital outlays of these same units exceeded their internal capital formation by at least $300 million, and during the current year this figure may expand.

Debt Financing

Since the capital markets are unfavorable for the flotation of equity issues on a scale that would adequately help to finance the industry's $5 billion expansion program, some of the stronger oil companies have borrowed money on a long term basis at low rates, though a few have sold issues of common stock. But where the 30 concerns studied by the Chase National Bank raised $682 million in 1947 through loans or sale of equities, funds available from operations totaled $1.7 billion. This latter sum represented reserves of $883 million set aside for capital extinguishments and $821 million of net income retained in the business.

Although dividends paid by the same 30 concerns last year were $94 million more than in 1946, the proportion of net earnings distributed declined to 34.9% compared with 43.4% in 1946 and the 48.1% average for the 1941-45 period. In other words, stockholders in this group actually contributed about 65% of net earnings as a reinvestment to finance the expansion of their respective companies. These statistics fairly represent a trend that applies broadly to the entire oil industry, indicating that while most shareholders presently are receiving bigger dividend checks, the ratio to net income reported is likely to remain fairly moderate.

Price Trends

The advance in prices for petroleum products that has made possible the huge profits plowed back into this dynamic industry, evidently has met little resistance by consumers. To a large degree this has been because for years past, gasoline and fuel oil have been priced lower than coal on a thermal basis, only recently reaching a level that might desirably ease an excessive demand. Then as of last July, crude oil prices were only 38% higher than in 1926, compared with a rise of 86.4% for average wholesale prices for raw materials. A more drastic advance in prices for gasoline and heating fuels since 1941 has been the natural result of supply and demand factors, and eventually will be adjusted according to their future relationships.

Under present circumstances, it will be appreciated that the fully integrated oil concerns are especially well situated to achieve good earnings. Their main problem will be to maintain operations on a well balanced basis, for in refining oil it is necessary to produce a wide range of derivatives, any one of which might easily get out of line with current demand. Right now, there seems to be a wide open market for all the oil products that can be processed, but as time goes on this picture could change. Big producers of crude oil have an advantage in holding the key to the larger situation, and the wide margins possible at present prices assure the creation of ample profits. The entire economy benefits from this oil prosperity, for it has stimulated numerous smaller concerns to expand their drilling activities in the drive to supply the national oil requirements.

The distribution end of the oil industry, as well as the refiners, will be more vulnerable to changes in economic conditions than the producers of crude petroleum. This because competition will become increasingly severe, when or if supplies become more ample or demand tends to ease, and profit margins on such items as gasoline, kerosene and fuel oils will be squeezed as prices recede.

Summing up, the oil industry is displaying extraordinary ability in keeping supply in close balance with the sharpest advance in demand in peacetime history. Net earnings gains by this group during the first half year exceeded those of any other division in the economy, with every indication that full year results will be equally favorable. Looking ahead, a well assured larger output of fuel burning automobiles, locomotives and new homes foreshadows prolonged heavy demand for petroleum products, while crude oil supply, transportation and refinery capacity appear pretty certain to meet the test satisfactorily.

Although the oil industry over a long period of years has earned the reputation for being fairly depression resistant, and dividends paid by the stronger concerns have been fairly liberal and stable, the current bright status of the industry has been only moderately reflected by the stock market. True, oil shares established foremost gains in the early 1948 rallies, but since then have displayed relative weakness. To judge from our appended table, yields based upon 1947 distributions are not very appealing, but dividend improvement has been rather widespread in 1948 and year-end distributions may be liberal.

In weighing prospects over the intermediate term, it is rational to anticipate a fair rate of return upon the huge capital investments now being made. Upon this surmise, shareholders should benefit substantially in the long run from their enforced reinvestment of large earnings, in any event gaining strong assurance of dividend stability. On completion of the sizable expansion program and full development of new oil properties, the leading concerns should once more pay out a larger share of earnings. It seems to us, accordingly, that most oil shares are still favorably priced in relation to present and future potentials.

Where Growth—Where Maturity—Is Indicated

(*Continued from page* 10)

leaders in the electrical industry, expansion has been more marked percentagewise than in any of the other groups of largest concerns. On the record, Westinghouse has increased its sales and net earnings at a faster clip than its competitor. General Motors shows an increase in total assets of only 87%, with net earnings up only 58%, but steel shortages have precluded utilization of perhaps 40% of its enlarged capacity.

As for duPont and Union Carbide, high construction costs have interrupted large scale expansion

by one, though the other is midway in a $200 million program. DuPont's highly conservative policies have not lifted earnings much, but its dominant position suggests unusually stable earnings. Profits of Union Carbide have grown faster and may continue to do so. Goodyear Tire & Rubber Co. represents an industry that has now brought supply into desirable balance with demand, but still expects sales to continue at a much higher level than prewar. The company's profits appear to have increased rather closely in line with its gain in total assets.

The Smaller Concerns

Turning to the relatively smaller concerns on our other table, it is very interesting to note the dynamic growth of some of them. Eliminating one very spectacular performer, U. S. Plywood, total assets of the other 19 climbed by an average of 190%, sales were up 300% and net profits 290%. Furthermore the individual concerns represent varying forms of enterprise, few of them competing with the giant companies on our other table. This carries significance in revealing the broad scope of business opportunities that have opened in postwar for smaller concerns alert to push ahead. The increased stature of many of these companies carries some weight, but more important is their managerial aggressiveness, flexible cost controls, and possible freedom from too complex operating problems. These factors strengthen their potentials for carrying on when competition stiffens.

Abbott Laboratories, the leading domestic producer of pharmaceuticals and medicinal chemicals, has gained rapid growth in exploiting world markets, through acquisitions and by expansion of facilities. Its established reputation with the medical profession should aid in holding volume at a high level indefinitely. Our table shows that net profits have gained in close proportion to advances in volume, both factors nearly doubling the rate of asset expansion. A bright future seems ahead for this concern.

Johns-Manville, the leading specialists in the asbestos field, has more than doubled in size, volume and earnings capacity since 1939, and when a $50 million expansion program is completed should make further progress. Caterpillar Tractor gained 129% in total assets and 224% in sales volume, an indication of efficient use of facilities but also of higher prices. Since net profits gained only 65% in the period under review, there seems to be room for improvement, and as volume prospects for some time ahead are very encouraging, earnings should be stable, if not on the upgrade.

Borg-Warner

Borg Warner's operating results have been shown impressive improvement, with sales up 303% and net profits 330%. This strongly established automobile parts producer has branched out on a broad scale into other fields, in size of assets it has increased 205% since 1939. Demand for the products of this concern promises to continue strong in all divisions in the foreseeable future, and growth potentials have by no means been exhausted. Celotex has pushed ahead most successfully in the highly competitive building supply industry, with sales outstripping physical growth and with net profits soaring 785%. The heavy demand for low-cost wallboards and gypsum products shows no signs of declining, and as long as the construction boom endures, Celotex should maintain its vigorous strides forward.

Net profits of National Cash Register have advanced rather spectacularly by 525% during the interval under review, compared with a total asset growth of only 130% and a volume gain of 257%. Backlog orders of this specialist are ample to support capacity operations for some time to come and a strongly entrenched trade position favors prospects for keeping profit margins desirably wide. Although our table shows exceptional growth by Minneapolis-Honeywell, with sales up 332% and net profits rising 220%, conditions in 1948 have temporarily, at least, halted the growth of this company. Mainly this is due to a decline in demand for oil burner equipment in new homes and industrial buildings, in turn influenced by fear of scant fuel supplies. But conditions have now improved and there is little to check a revival in demand for the company's products as time goes on.

Another article in our current issue refers to the marked profit gains of the oil industry. An outstanding example shown in our table is Shamrock Oil & Gas, whose net profits gained 867% compared with a rise in volume of 235% and with total assets up only 125%. Shamrock produces oil and natural gas and also functions as a dealer. Its proven reserves of natural gas are estimated as more than 2 trillion cubic feet. With prices of all petroleum products at peak levels and supply barely keeping abreast of a record demand, this concern is enjoying a bonanza that can hardly last forever.

If space permitted we would like to discuss all of the smaller concerns listed, for in each case there are interesting factors that account for their above-average growth. On the whole the evidence we have submitted stimulates confidence in the general economic status. Big Business most clearly is not the monopolistic monster that some of the politicians would have us believe. Under our system of free enterprise there is plenty of elbow room for smaller concerns in every field to benefit from the growth in population and markets, as the record well proves. Investors scanning growth potentials will be wise not to overlook concerns of more modest stature.

Chemical Industry

(*Continued from page* 31)

indicated their intention of quoting prices on an f.o.b. mill basis, but since production facilities are widely distributed and are located to a larger extent near consumer markets, such a change should involve no hardships for customers. Savings in the way of freight charges may enable chemical companies to avoid price increases on alkalies.

Chemical producers also are well situated to meet rising freight costs, since they have been expanding in many directions in recent years. As a matter of fact, the industry ranks second only to food producers in its construction expenditures for the last three years, according to F. W. Dodge Corp. compilations. Figures show that contracts awarded since the beginning of 1946 approximately $305 million for chemical concerns, compared with slightly more than $407 million for com-

panies processing food products. Iron and steel companies came third with about $218 million. Such dispersal of productive facilities is naturally of considerable advantage in meeting mounting freight costs.

With further rise in production expected and with the price-cost squeeze since early 1947 waning, continued gains in sales and relatively better profits are indicated for most chemical companies. Dividends may also rise, though expansion outlays may tend to keep disbursements at conservative levels. Most stocks of the group have shown above average resistance to the market decline from the June highs. Since price-earnings ratios are relatively low and the outlook remains favorable for most divisions, chemical shares would acquit themselves fairly well in any future market upturn.

For Profit and Income

(*Continued from page* 35)

but new business harder to get. Next year sales could be somewhat lower even if there is no business recession. Probably the next important sellers' market to evaporate will be housing. That in automobiles will be last. It will be a happier day for consumers when all go, but not equally so for the stock market.

WE ARE SORRY

In our August 14 issue, an article entitled "Which Aircrafts in Best Position" inadvertently mentioned Chance Vought Aircraft and Sikorsky Aircraft as subsidiaries of Curtiss-Wright Corporation. Actually these two companies are divisions of United Aircraft Corporation. We take this occasion to rectify this error.

Realistic Investment Yardsticks to Meet Today's Conditions

(*Continued from page* 13)

—will materialize. Considerations of this nature will be promptly reflected by the market, since they have a direct bearing on the earnings outlook of the industries and companies involved.

As previously stated, competition is back, and growing in many lines, and will become an increasingly important investment factor over the years ahead. In the past, demand has exceeded supply, a fact that went a long way towards explaining the recent state of our domestic as well as the world economy. But shortages are getting fewer, and supply is catching up on all sides.

In short, we are now in a state of transition that calls for a different investment approach from that prevailing during the past period of universal demand backlogs. The latter are shrinking rapidly, and step by step our economy is facing the task of adjusting itself to more normal conditions. The progress and implications of this transition will be constantly reflected in the stock market, not only in terms of broad market movements but also in the market action of the shares of individual companies. It points to the need for a high degree of selectivity and discrimination in making investment decisions for the year ahead.

Candidates for Year-End Extras

(*Continued from page* 33)

holders will receive a supplementary disbursement in the final quarter, at least equal to that in 1947. To carry tremendous inventories has required retention of a substantial share of earnings by Sears Roebuck, but creation of large inventory reserves has aided in boosting working capital. All in all, if net earnings for 1948 top $5 per share, as seems possible, it is rational to expect more liberal treatment for stockholders at the end of this year for distributions during the last two years have been quite conservative.

A $50 million postwar expansion and modernization program by Johns-Manville has held dividends to rather modest proportions in relation to significant gains in earnings capacity. As these improved facilities near completion or already add to output, increased sales will probably result in a rather consistent uptrend in earnings during the intermediate term. During the first three quarters of 1948 this company distributed dividends on a quarterly basis of 35 cents per share, representing less than half of indicated earnings. Before very long, possibly in the final quarter, the directors may view the outlook with sufficient confidence to liberalize their dividend policies.

Though payment of dividends aggregating $1.50 per share by Pullman, Inc. during the first three quarters of 1948 seems fairly liberal compared with reported net earnings of $1.45 per share during the first six months, special circumstances suggest the declaration of a year-end extra. The company's huge cash resources warranted payment of $1 extra in 1947 when net earnings were slightly lower than the current rate. A top-heavy cash position, resulting from sale of the sleeping car division, has enabled the company to buy in substantial amounts of its capital stock. Backlog orders promise record breaking production for several years to come, and by the end of the current year it is thought that cost problems restricting profits on passenger car construction will be overcome. No valid reason appears why shareholders should not expect a year-end extra at least as large as a year ago, and perhaps even more generous.

Now that International Paper Company seems certain to end 1948 with net earnings comparable to the $15.02 per share reported last year, chances for a year-end special of some kind are enhanced. In 1947 stockholders received only $4 per share including a small extra. The quarterly rate at present is $1. The very substantial progress made by the company in recent years as to retirement of debts and refinancing of preferred stock has greatly strengthened its capital structure, while its facilities have been greatly expanded through retention of earnings in the business. The time seems to approach when stockholders should be allotted a more liberal share of earnings. It is quite conceivable that a year-end extra larger than the $1 per share paid at the end of 1947 may be in store for them.

Net earnings of Container Corporation in 1948 may not fully match the record showing of $10.09 for 1947, but the coverage over dividends should amply warrant payment of a supplementary dividend in the last quarter. At the end of last year the company declared an extra of $1.50 per share and could afford to do likewise this year. Thus far in 1948, shareholders have received $1.50 per share although first half earnings were reported as $4.05.

In summary, it looks quite certain that the 1948 harvest of special dividends will be bountiful, perhaps reaching record proportions. It is possible, however, that declaration of stock dividends henceforth may become increasingly popular due to corporate desires to conserve cash and yet capitalize substantial growth achieved by large scale retention of earnings.

Trend of Events

(*Continued from page* 4)

finding itself in anti-trust throes.

It would be unrealistic to assume that the stepping up of the anti-trust drive at this particular moment has no political meaning, that the timing has nothing to do with the election campaign or even with the prospective outcome of the elections themselves. It is understandable if astute observers regard this development as something like the placing of a "time bomb," and in the nature of a last chance to take a swing at big business before a new administration takes over.

As I See It!

(*Continued from page* 5)

in a moral sense, it will actually improve our position remains to be seen..

All of which renders the need for a courageous policy doubly necessary. There can be no further retreat under Soviet coercion nor under Soviet blackmail of threatened withdrawal from the U.N. While we cannot correct the mistake of Potsdam, we must see to it that the new situation thereby created is met with firmness and determination, in a manner that will minimize the adverse consequences of that historic error.

The dispute over Berlin has now become a great test of strength and prestige in which only latterly we have been holding our own by tenacious maintenance of the air lift. There can be no further yielding on our part.

Market Re-Appraising Outlook

(*Continued from page* 7)

lated into production. Thus, a prospective rise in arms output late in 1949 or 1950 would not preclude some decline in business in the meanwhile, and a considerably larger decline in profits, as usual. Of course, if we really "went to town" on armament, no Administration could avoid a partial regimentation of the economy, effective inflation control and higher taxes, although not as high as in war. Finally, whenever corporate earnings depend largely on armament spending, they will be given a very conservative valuation in the stock market.

What we have said in this analysis, and in others for some time past, all adds up to uncertainty. It precludes a sustained market rise. There is no change in our policy. Except under compelling individual circumstances, cash reserves should be not less than 50% in investment accounts.

Monday, October 4.

THE SECURITY MARKET AND HOW IT WORKS
By Birl E. Shultz

This authoritative work fills a very real need. It is a treasure house full of factual information relating to the mechanics and functions of our markets. To those who earn their livelihood in the securities business and who wish to improve their technical knowledge, as well as those who, as investors or traders, use the facilities of the N. Y. Stock Exchange and of its member firms, it is a source book of unusual value."

Harper Bros. $5.00

BACK HOME
By Bill Mauldin

With his cartoonist's eye alert for material and with the impudent courage that heartened the GI's, it was natural for Bill Mauldin to lampoon the kind of things most decent people hate but don't do much about. Pressure groups, black-marketers, used-car shysters, highjacking landlords, crooked congressmen, left-wing dilettantes, professional red-baiters, religious bigots, party-line parrots all got a going-over in sharp, stinging, sometimes funny, sometimes tragic pictures.

There are two hundred pictures of our present world and 50,000 honest, open hearted words about how and why Mauldin drew them that way. They make a vigorous book, and a wholly welcome one because it shouts what millions of Americans are merely murmuring.

William Sloane $3.50

FEATURE ARTICLE ON CHEMICAL INDUSTRY ON PAGE 28

BOOK REVIEWS

THE WEST AT BAY

By Barbara Ward

This illuminating analysis of the problems confronting the Western world shows what must be done if we are to preserve the values and the way of life we cherish.

Specifically, it is a compelling argument for a close political and economic association of the Western nations of Europe, to be developed with the cooperation of the United States. With all the resources of her briliant mind, Miss Ward demonstrates that the decline of western Europe is the result of dislocations that are fundamental: the rising power of America, the resurgence of Asiatic nationalism, the secular revolt against the colonial system and the steady growth of Communism as a world force.

Norton $3.50

THE COLOR OF LIFE

By Arthur G. Abbott

Written for the layman as well as those more seriously concerned with the subject, it gives easy-to-understand explanations of just what color is and how it happens, from the scientific point of view.

It fully explains the meanings of color terms, color names, how to tell harmonies for discords, correct color combinations, how color stimulates or soothes, and gives many valuable hints on how everyone can benefit by using color more effectively in every-day life.

McGraw-Hill $4.00

MAGIC AND MYTH OF THE MOVIES

By Parker Tyler

Many Americans succeed in finding only entertainment in nation's theatres. However, the point of view of this book is that there is a whole twentieth-century mythology in the entertainers of the silver screen, one that unconsciously satisfies the hungers of mass emotion. Tyler examaines individual movies of current vintage, such as *Double Indemnity, Mildred Pierce,* and *Dorian Gray.* There are other chapters with the extraordinary and thought-provoking titles, *Schizophrenia a la Mode, Mirage of the Sunken Bathtub,* and *Finding Freudism Photogenic.* Out of this examination of movies, Tyler points to a broader understanding of ourselves through an understanding of the symbols and myths that have come to be prominent in our moments of mass relaxation.

Henry Holt and Company $3.50

CHINESE PAINTING

By William Cohn

Competent in several fields of art history, the German critic, William Cohn, now an Oxford don, offers an introduction to Chinese painting following the familiar Phaidon formula. The authoritative text is clear and interesting. The book is handsomely bound and has adequate reproductions of many well-known and some relatively unfamiliar masterpieces of Chinese painting. With many important works on this subject either out of print or hard to come by Mr. Cohn's work will be appreciated by the increasing public which evinces an interest in art in general and particularly by those fascinated by one of the most varied, subtle, and sophisticated of the arts developed by man, Chinese painting.

Oxford University Press $7.50

THE NICKEL PLATE ROAD

By Taylor Hampton

Taylor Hampton tells the step-by-step story of this railroad empire and the men who built it and run it today. It is a dramatic account, recreating an era important in the development of industrial progress in this country. Fully documented, colorful, it offers the equivalent of fictional adventure and will be of interest to all concerned with history, finance, business—and the romance of human effort. *The Nickel Plate Road* is an important addition to the literature of the railroads.

Profusely illustrated with photographs and drawings.

The World Publishing Company $3.75

SO DEAR TO MY HEART

By Sterling North

Indiana in the days of lamplight, gingham tablecloths, slat bonnets, and copper-toed shoes comes alive in this nostalgic novel by Sterling North.

The story begins with Jeremiah Tarleton, a lonesome ten-year-old orphan is living with his proud, religious Granny Kinkaid. An artist with her loom, Granny is seeking to tell the complicated and passionate story of Jeremiah's heritage and of her own bitterness against the Tarleton family by weaving a multi-colored counterpane of "story covers."

So Dear to My Heart is a story of emotional depth and beauty, filled with the gaiety, songs, dances, and color of the time and region of which North writes.

Doubleday $2.75

BOOK REVIEWS

THE ECONOMICS OF MONEY AND BANKING

By Lester V. Chandler

This new text is specifically designed for undergraduates taking their first course in money and banking. It therefore avoids an encyclopedic treatment of the subject, presenting instead a careful selection of the most important principles and problems, developing them fully enough to clarify their significance. It emphasizes throughout the functions of money, credit, and making *in the economic system,* and the importance of monetary policy, in the broad sense, for capital formation, the level of national income in both monetary and real terms, and the level of employment.

Harper Bros. $4.50

WE NEED NOT FAIL

By Sumner Welles

The main purpose and achievement of this books is to tell the dispassionate story of Palestine, of its inception, of the Belfour Declaration, of the perfidious White Paper, and our own recent lack og courage and consistency. Let us read this book to know the facts. Knowing the facts, let each and every one learn from the sufferings of the Jewish people, and of all the men who perished in World War Two, that national safety lies only in the safety of the community of nations.

H.M. Co. $2.50

RUSSIA IN FLUX

By Sir John Maynard

Russia In Flux is an impartial history of the Russian Revolution, a brilliant analysis of the peculiarly Russian ideas upon which the U.S.S.R. is based, and how those ideas have ben put into practice. The first part of the book charts the main currents of Russian thought up to the October Revolution; the second part deals with contemporary Russia.

Russia In Flux contains a wealth of information and insight not to be found in any other work on Russia in the English language.

Macmillan $6.50

OPERATION MOSCOW

By Christopher Norborg

Because of its positive, dynamic, Christian and democratic approach, *Operation Moscow* is completely different from other books on Soviet-American Relations.

It is a question of life and death for a fre world to find an answer to the foremost operational problem of our era: What must the United Nations do to force the Soviets to accept and obey international law and international agreements? The problem of world peace is crystallizing itself into two fundamental questions: How far is Soviet aggression prepared to go? And what are the military, political and spiritual counteractions which a democratic *Operation Moscow* must set in motion to insure free men everywhere against future mass crimes against humanity?

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By Gustav Stolper

This book answers two leading questions: What are the realities of the German problem today, nearly three years after the unconditional surrender? And what are the basic misconceptions which may already have made the German problem insoluble and peace in Europe thereby impossible?

The second part of his study is devoted to special problems. These include reparations, the war potential of revived industry, the struggle between socialism and private capitalism, and the question of a constitution for a restored Germany. Mr. Stolper sums up this brilliant and authoriative analysis with a provocative restatement of the historical errors in our thinking about German realities which may be fatal to the making of a durable peace.

Reynal & Hitchcock $3.75

STEUBEN GLASS

By James S. Plaut

The Development at Corning, New York, in the early 1930's of a new formula for brilliant, flawless crystal led to the creation of Steuben Glass. This book tells the exciting story of a remarkable undertaking which has raised American glass to a new level of design and craftsmanship equalling and often surpassing that of its most noted European contemporaries. It is the stirring, straightforward American story of a young industry's courageous investment in men and ideas. The author traces the romantic growth of this house into an important artistic force, describes the making of Steuben Glass, and offers a discerning analysis of its production.

H. Bittner & Co., Publishers $10.00